Select Committee on Pension Policy

P.O. Box 40914
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November 9, 2004

9:30 AM - 1:00 PM

Senate Hearing Room 4
Olympia, Washington

AGENDA

Work Session/Public Hearing/Possible Executive Session

9:30 AM	**(1)**	**Approval of September and October Meeting Minutes**
9:45 AM	**(2)**	**Plan 3 Vesting** – Laura Harper, Senior Research Analyst Legal
10:15 AM	**(3)**	**Part-time Education Staff Associates** – Laura Harper
10:30 AM	**(4)**	**Opt in/Opt Out; Age 70-1/2 – Subgroup Recommendation** – Bob Baker, Senior Research Analyst
11:15 AM	**(5)**	**State Patrol Rate Stability** – Bob Baker
Noon	**(6)**	**LEOFF 1 Survivor Benefits** – Bob Baker
12:45 PM	**(7)**	**LEOFF 1 Disability Boards** – Bob Baker
1:00 PM	**(8)**	**Adjourn**

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Meeting and Issue Schedule

(August 30, 2004)

April 20, 2004
10:00 AM - 12:30 PM
Senate Hearing Rm 4

Election of Officers
Session Update
Interim Work Plan
Meeting Dates

May 18, 2004
9:30 AM - 4:00 PM
Senate Hearing Rm 4

Orientation

June 15, 2004
10:00 AM - 12:30 PM
Senate Hearing Rm 4

Adequacy of Benefit
Military Service Credit

July 13, 2004
10 AM - 1 PM
Senate Hearing Room 4

Election of Chair
Adoption of Meeting Schedule
Purchasing Power
Post-Retirement Employment
Contribution Rate Setting

August 17, 2004
10 AM - 1 PM
Senate Hearing Room 4

Rules of Procedure
Gain-sharing
Purchasing Power - Options
PFC Audit and Recommendations

September 7, 2004
10 AM - 1 PM
Senate Hearing Room 4

Retiree Health Insurance
Age 65 Retirement
PFC Recommendations
OSA 05-07 Budget Request

October 19, 2004
10 AM - 1 PM
Senate Hearing Room 4

Age 65 Retirement - Options
LEOFF 1 Issues
State Patrol Rate Stability
Post-retirement Employment
SCPP Executive Committee Membership
Interruptive Military Service

November 9, 2004
10 AM - 1 PM
Senate Hearing Room 4

Plan 3 Vesting
Part-Time Education Staff Associates
Opt In/Opt Out; Age 70-1/2
State Patrol Rate Stability
LEOFF 1 Survivor Benefits
LEOFF 1 Disability Boards

December 7, 2004
10 AM - 1 PM
Senate Hearing Room 4

Legislation

Select Committee on Pension Policy

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DRAFT MINUTES

September 7, 2004

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on September 7, 2004.

Committee members attending:

Senator Fraser, Chair	Doug Miller
Representative Conway, Vice Chair	Glenn Olson
Representative Alexander	Representative Crouse
Elaine Banks	Diane Rae
Senator Carlson	Senator Regala
Representative Fromhold	J. Pat Thompson
Leland Goeke	Dave Westberg
Corky Mattingly	

Maureen Westgard attending for John Charles.

Senator Fraser, Chair, called the meeting to order at 10:05 AM.

Senator Fraser welcomed Maureen Westgard, Deputy Director, Department of Retirement Systems attending for John Charles.

(1) **Appointment to the State Actuary Appointment Committee**
J. Pat Thompson of the Select Committee on Pension Policy was appointed to replace Richard Ford on the State Actuary Appointment Committee

(2) **Retiree Health Insurance**
Bob Baker, Senior Research Analyst, presented the report entitled "Retiree Health Insurance."

Pete Cutler, Acting Administrator, Health Care Authority, reviewed the "Washington State Heath Care Authority, Uniform Medical Plan" handout.

The following people testified:
John Kvamme, Washington Association of School Administrators/ Association of Washington School Principals
Sam Kinville, retired

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(3) Age 65 Retirement
Laura Harper, Senior Research Analyst Legal, presented the report entitled "Age 65 Retirement."

(4) Pension Funding Council Recommendations
Senator Fraser reported on the results of the Pension Funding Council Subgroup committee meeting and that the SCPP supports the continued full funding of the Washington State retirement systems but also realizes the significant financial commitment associated with implementing the required contribution rate increases.

Matt Smith, State Actuary, reviewed the "Deferred Rate Increases" report.

It was moved to adopt and recommend to the Pension Funding Council the preliminary 2005-07 contribution rates, as calculated by the State Actuary, including the cost of recognizing the liability associated with future gain-sharing benefits. Seconded.

MOTION CARRIED

It was moved to recommend to the Pension Funding Council that the 2005-07 contribution rates as calculated by the State Actuary be approved. Seconded.

MOTION CARRIED

(5) Office of the State Actuary 05-07 Budget Request
Matt Smith, State Actuary, reviewed the 2005-07 Budget Request handout. Committee members discussed this issue and the Chair recommended to prioritize the new budget increase as follows: (1) Actuarial Valuation System; (2) Publications Specialist; (3) Business Plan Consultant.

It was moved to approve the 2005-07 budget as recommended and the new budget increase be prioritized as the chair submitted. Seconded.

MOTION CARRIED

Senator Fraser reviewed a letter submitted by Cassandra de la Rosa, Executive Director, Retired Public Employees Council of Washington.

The meeting adjourned at 12:30 PM.

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DRAFT MINUTES

October 19, 2004

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on October 19, 2004.

Committee members attending:

Senator Fraser, Chair	Leland Goeke
Representative Conway, Vice Chair	Corky Mattingly
Representative Alexander	Doug Miller
Elaine Banks	Glenn Olson
Senator Carlson	Diane Rae
Representative Crouse	Senator Regala
Representative Fromhold	Dave Westberg

Senator Fraser called the meeting to order 10:10 AM.

(1) Age 65 Retirement - Options
Laura Harper, Senior Research Analyst Legal, presented the report entitled "Age 65 Retirement." Lee Goeke gave a report from the Age 65 Subgroup meeting held October 14, 2004. Committee members discussed this issue.

The following people testified:
Randy Parr, Washington Education Association
Lynn Maier, Washington Public Employees Association
Marnie Slakey, Pierce Transit
Peter Altmann, Amalgamated Transit Union
Beverly Hermanson, Washington Federation of State Employees

(2) Post-retirement Employment
Laura Harper, Senior Research Analyst Legal, presented the report entitled "Post-retirement Employment."

The following people testified:
Bob Woolley, retired
Randy Parr, Washington Education Association
John Kvamme, Washington Association of School Administrators/Association of Washington School Principals

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Senator Carlson moved that the "Post-retirement Employment" bill draft Z0141.1/05 be recommended to the Legislature. Seconded.
MOTION CARRIED

(3) SCPP Executive Committee Membership
Laura Harper, Senior Research Analyst Legal, reviewed the "Select Committee on Pension Policy Executive Committee Membership" report.

Marty Brown offered an amendment to eliminate the director of Office of Financial Management on the Executive Committee and have the director of the Department of Retirement Systems serve each year.

The following person testified:
Leslie Main, Washington State School Retirees Association

It was moved to approve the SCPP Executive Committee Membership bill with the amendment of eliminating the director of Office of Financial Management on the Executive Committee and the director of the Department of Retirement Systems serving each year. Seconded.
MOTION CARRIED

(4) Interruptive Military Service
Laura Harper, Senior Research Analyst Legal, reviewed the "Interruptive Military Service Credit" report.

The following person testified:
Steve Nelsen, Executive Director, LEOFF 2 Retirement Board

Representative Conway suggested this issue be brought back to the Executive Committee.

(5) LEOFF 1 Issues
Bob Baker, Senior Research Analyst, presented the report entitled "LEOFF 1 Issues."

The following people testified:
Dick Warbrouck, Retired Firefighters of Washington
*Bud Sizemore, W*ashington Sate Council of Firefighters

(6) State Patrol Rate Stability

Bob Baker, Senior Research Analyst, presented the report entitled "State Patrol Rate Stability."

The following people testified:
Rick Jensen, Washington State Patrol Troopers Association
Paul Neal, Counsel, Washington State Patrol Troopers Association

The meeting adjourned at 1:10 PM.

Select Committee on Pension Policy

Plan 3 Vesting
Alternative Options

(November 8, 2004)

These alternative options would impact the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five for active members following the attainment of a certain age. The costs shown are for 5 year vesting if age 50 or over, and 5 year vesting if age 45 or over.

	Five Year Vesting If age 50+				Five Year Vesting If age 45+			
Estimated Fiscal Impact (in Millions):	**PERS**	**TRS**	**SERS**	**Total**	**PERS**	**TRS**	**SERS**	**Total**
Increase in Contribution Rates (Existing Members)								
Employee Aggregate (Plan 2 only)	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
Employer Aggregate	0.00%	0.01%	0.02%		0.00%	0.02%	0.04%	
Increase in Contribution Rates (New Entrants)								
Employee (Plan 2 only)*	0.01%	N/A	N/A		0.01%	N/A	N/A	
Employer *	0.01%	0.01%	0.06%		0.01%	0.03%	0.12%	
2005-2007								
State:								
General Fund	$0.1	$0.7	$0.4	$1.2	$0.1	$1.5	$0.9	$2.5
Non-General Fund	$0.1	$0.0	$0.0	$0.1	$0.1	$0.0	$0.0	$0.1
Total State	**$0.2**	**$0.7**	**$0.4**	**$1.3**	**$0.2**	**$1.5**	**$0.9**	**$2.6**
Local Government	$0.2	$0.1	$0.4	$0.7	$0.2	$0.3	$0.8	$1.3
Total Employer	$0.4	$0.8	$0.8	$2.0	$0.4	$1.8	$1.7	$3.9
Total Employee	$0.2	$0.1	$0.2	$0.5	$0.2	$0.1	$0.3	$0.6

Estimated Fiscal Impact (in Millions):	Five Year Vesting If age 50+ PERS	TRS	SERS	Total	Five Year Vesting If age 45+ PERS	TRS	SERS	Total
2005-2030								
State:								
General Fund	$6.3	$17.0	$21.6	$44.9	$6.3	$45.7	$43.3	$95.3
Non-General Fund	$10.4	$0.0	$0.0	$10.4	$10.4	$0.0	$0.0	$10.4
Total State	**$16.7**	**$17.0**	**$21.6**	**$55.3**	**$16.7**	**$45.7**	**$43.3**	**$105.7**
Local Government	$14.9	$3.5	$19.2	$37.6	$14.9	$9.3	$38.4	$62.6
Total Employer	$31.6	$20.5	$40.8	$92.9	$31.6	$55.0	$81.7	$168.3
Total Employee	$15.8	$0.6	$1.3	$17.7	$15.8	$0.6	$2.6	$19.0

**The increases in contribution rates for future new entrants are based on the increase in the Entry Age Normal Cost.*

We assume that there would not be a modification of the employee/employer level of cost sharing as defined in the actuarial funding chapter - Chapter 41.45 RCW. As a result, the cost of either of these Plan 3 benefit enhancements would be shared equally among Plan 2/3 employers and Plan 2 employees.

Plan 3 Vesting

(October 25, 2004)

Issue

Reduce the required length of service for vesting in the defined benefit portion of the PERS, SERS and TRS Plans 3 from 10 years to 5 years.

Staff

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

Members Impacted

As of the most recent valuation, 53,500 Plan 3 members were not vested. Non-vested members included those who had less than 10 years of service; those who were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS; and those who did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this proposal unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.

Current Situation

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after 10 years of service, or after 5 years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution portion of their Plan.

History

SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the defined benefit vesting period in the Plans 3 from 10 years to 5 years. The bill passed the

House, but was not heard in the Senate. In 2004 similar legislation was introduced as SB 6247/HB 2540. It passed in the Senate but died in House Appropriations.

Policy Analysis

The Plans 3 are hybrid plans. The defined benefit portion of these plans (the portion to which the 10-year vesting period applies) uses a formula to determine the monthly retirement benefit that a member will receive for life: 1% x Average Final Compensation (AFC) x years of service credit. The defined benefit is funded entirely by employers. When members leave employment prior to becoming vested, they forfeit these employer contributions. On the other hand, the defined contribution portion of the Plans 3 is funded entirely by employees. Employees are immediately vested in their own contributions.

When the Plans 3 were on the drawing board, one of the concerns was the small size of the defined benefit that members would receive if they earned only a modest amount of service credit before full retirement. Plan 2 members receive 10% of average final compensation (AFC) upon vesting (5 years × 2% per year). This 10% standard was used for the defined benefit portion of the Plans 3. Setting the vesting period in the Plans 3 to 10 years guaranteed vested members 10% of their AFC as a minimum defined benefit (10 years x 1% per year).

In the design of the Plans 3, the long vesting period for the defined benefit portion of the pension was offset by the fact that Plan 3 members were immediately vested in the defined contribution portion of their benefit. Since the defined benefit would be such a small portion of the total benefit during the early years of employment, and since members were immediately vested in their employee contributions, it was felt that those who left employment before the end of the vesting period would not be losing such a significant amount of their total retirement benefit that the longer vesting period would adversely affect employment behavior.

The following table illustrates the value of the defined benefit (DB) portion of Plan 3 for members who entered the plan at various ages and separated from service after 5 years. These examples assume an average final compensation of $30,000 and an annual inflation rate of 3.5%.

Future Value of Plan 3 Benefit, Adjusted for 3.5% Assumed Inflation
(Defined Benefit payable at 65 = 1% x $30,000 x 5 years of service)

Entry Age	Age at Separation	DB Benefit at 65	Future Value*	% of DB
25	30	$1,500	$450	30%
35	40	$1,500	$635	42%
45	50	$1,500	$895	60%
55	60	$1,500	$1,263	84%

**Reduced for 3.5% assumed annual inflation from age at separation to age 65.*

The table illustrates that for those who are hired at earlier ages, the future benefit that is forfeited is smaller after adjustment for assumed inflation from age at separation to age 65. This is consistent with the rationale behind the 10-year vesting period, and the reason why the vesting period was lowered for older employees. The higher the plan entry age, the greater the percentage of the future benefit that would be forfeited at separation as the result of a failure to vest.

It is unknown whether members actually analyze their own retirement benefits at this level of detail, or how much the vesting period is a factor in employment decisions. Theoretically, shorter vesting periods support attraction of new employees. Longer vesting periods support retention of employees.

Another retention incentive in the Plans 3 is the provision that members who remain in the Plans 3 for at least twenty-service credit years receive the additional benefit of an "inflation protector." These members receive an increase in the defined benefit portion of their retirement allowance of 3% per year, compounded for each month from the date of separation to the date that the retirement allowance commences.

Comparison with Washington Plans and Other States

The 10-year vesting period for the defined benefit portion of the Plans 3 is the longest among the plans administered by Washington State. The Plans 1 and 2, which are all defined benefit and not hybrid plans, have 5-year vesting periods.

The national trend in retirement plans is toward shorter vesting periods due to the increasing mobility of the workforce and the trend toward multiple careers. However, numerous state and municipal retirement plans still use a 10-year vesting period. In the 2002 survey from the Public Pension Coordinating Council covering 276 public retirement plans, a total of 96 plans had vesting requirements of 10 years or more. More than 40 of those plans were administered by twenty-five states or territories, in addition to Washington. In comparison, 132 plans had vesting requirements of 5 years or less. The survey results are attached.

Options

The proposal to lower the vesting period for the defined benefit portion of the Plans 3 from 10 to 5 years has been considered and rejected during the last two legislative sessions. With that in mind, the Committee may wish to consider alternative approaches to the issue. One possibility is that the proposal was rejected due to cost. An option for lowering the cost would be to develop proposals for 5-year vesting in the higher age brackets when the vesting period is more likely to affect employment behavior. Currently 5-year vesting is available in the Plans 3 if 12 months of a member's service is earned after attaining age 54. That age could be lowered.

If the SCPP wishes to pursue the issue of Plan 3 vesting, it might be useful to study the probability of member termination at various ages as well as the value of the defined benefit component of the Plans 3 at various ages in order to better assess whether any changes to the vesting period might affect employment behavior.

If the Committee determines that the cost of changing the vesting period is prohibitive at this time, another option would be to encourage additional member education. There may be a perception that the longer vesting period for the defined benefit portion of the Plans 3 is a detriment to those who might select Plan 3. However, through additional member education, more new hires may be able to better evaluate the financial implications of the vesting period and better understand the tradeoffs in the design of the Plans 3.

Stakeholder Input

While there has been no opportunity for specific stakeholder input on this issue during this interim, it should be noted that the following organizations have requested in writing that Plan 3 vesting be considered by the SCPP in 2004: the Washington Association of School Administrators, Association of Washington School Principals, and the Washington Education Association.

Executive Committee Recommendation

The Executive Committee heard a report on this issue on June 15, 2004. At that time it was decided that the full SCPP could hear the issue later in the interim, since the issue is not a new one.

Bill Draft

A copy of the draft bill is attached This bill would reduce the required length of service for vesting in the defined benefit portion of PERS 3, SERS 3 and TRS 3 from 10 years to 5 years.

Fiscal Note

An updated draft fiscal note is attached. The bill would increase contribution rates in the PERS, TRS and SERS Plans 2 and Plans 3, as the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees. This cost-sharing approach is defined under state law in the actuarial funding chapter, Chapter 41.45 RCW.

Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

ID#	PLAN NAME	Members	Vesting Requirement
0376G	West Virginia Teacher's Defined Contribution Plan	19,000	1/3 after 6 years; 2/3 after 9 years; 100% after 12 years
0020A	PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO	3,639	10 YEARS
0247A	OAKLAND POLICE & FIRE RETIREMENT FUND	161	10 YEARS
0283A	City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines	364	10 years
0314C	BISMARCK FIREFIGHTERS RELIEF ASSOCIATION	62	10 YEARS
0376D	West Virginia State Police Retirement Plan□□(Trooper Plan B)	323	10 years
0497B	Macon Water Authority Employee Pension Plan	205	10 years
0672A	New York City Pension Fund -- Subchapter 2	11,477	10 years
0022A	Dukes County Contributory Retirement Plan	932	10 years at age 55
0083A	OKLAHOMA TEACHERS' RETIREMENT SYSTEM	83,024	10 YEARS OF OKLAHOMA SERVICE
0005C	RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN	126,558	10 YEARS OF SERVICE
0010A	TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES	87,631	10 YEARS OF SERVICE
0010B	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B	2,115	10 YEARS OF SERVICE
0010C	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A	1,067	10 YEARS OF SERVICE
0038A	RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL	107	10 YEARS OF SERVICE
0015A	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	46,500	10 YEARS OF SERVICE
0016A	PLYMOUTH COUNTY RETIREMENT ASSOCIATION	9,098	10 YEARS OF SERVICE
0017A	MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST	1,587	10 YEARS OF SERVICE
0024A	STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN	261	10 YEARS OF SERVICE
0064B	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL	32,864	10 YEARS OF SERVICE
0064C	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL	416	10 YEARS OF SERVICE
0004A	TEXAS MUNICIPAL RETIREMENT SYSTEM	86,203	10 YEARS OF SERVICE
0005A	RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES	75,734	10 YEARS OF SERVICE
0064A	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL	72,176	10 YEARS OF SERVICE
0067A	TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY	134,199	10 YEARS OF SERVICE
0068A	POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY	42,430	10 YEARS OF SERVICE
0069A	PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY	277,441	10 YEARS OF SERVICE
0146E	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL	31,088	10 YEARS OF SERVICE
0071A	LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM	69,680	10 YEARS OF SERVICE
0087A	NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES	20,262	10 YEARS OF SERVICE
0087C	NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN	3,254	10 YEARS OF SERVICE
0087D	NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN	1,269	10 YEARS OF SERVICE
0120A	CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST	628	10 YEARS OF SERVICE
0131A	MWRD RETIREMENT FUND	2,084	10 years of service
0148A	TEACHERS RETIREMENT SYSTEM OF GEORGIA	191,908	10 YEARS OF SERVICE
0154B	NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN	122	10 YEARS OF SERVICE
0156B	WICHITA POLICE AND FIRE RETIREMENT SYSTEM	993	10 YEARS OF SERVICE
0161A	INDIANA STATE TEACHERS' RETIREMENT PLAN	77,870	10 YEARS OF SERVICE
0163A	CHICOPEE RETIREMENT SYSTEM	1,140	10 YEARS OF SERVICE
0168A	FLORIDA RETIREMENT SYSTEM	597,823	10 YEARS OF SERVICE
0181A	MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	312,699	10 YEARS OF SERVICE
0182A	MICHIGAN STATE POLICE RETIREMENT SYSTEM	2,210	10 YEARS OF SERVICE
0185A	MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM	47,778	10 YEARS OF SERVICE
0193A	KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN	142,870	10 YEARS OF SERVICE
0223A	CITY OF ALPENA - GENERAL	48	10 YEARS OF SERVICE
0224A	LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP	3,944	10 YEARS OF SERVICE
0224B	LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES	2,023	10 YEARS OF SERVICE
0224C	LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP	697	10 YEARS OF SERVICE
0226A	CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM	62	10 YEARS OF SERVICE
0255A	OKLAHOMA POLICE PENSION AND RETIREMENT PLAN	3,778	10 YEARS OF SERVICE

0269A	KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM	761	10 YEARS OF SERVICE
0293A	CITY OF MILFORD - BENEFIT PLAN I	700	10 YEARS OF SERVICE
0314A	CITY OF BISMARK CITY PENSION PLAN	307	10 YEARS OF SERVICE
0314B	CITY OF BISMARK POLICE PENSION PLAN	143	10 YEARS OF SERVICE
0335A	LYNN HAVEN POLICE PENSION PLAN	27	10 YEARS OF SERVICE
0337A	LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN	74	10 YEARS OF SERVICE
0340A	A.S.G GENERAL EMPLOYEES PLAN	4,050	10 YEARS OF SERVICE
0372A	EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND	26,738	10 YEARS OF SERVICE
0372B	MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	6,983	10 YEARS OF SERVICE
0372C	STATE POLICE RETIREMENT BENEFITS TRUST	130	10 YEARS OF SERVICE
0381A	CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0381B	CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0388A	TOWN OF AVON POLICE RETIREMENT PLAN	25	10 YEARS OF SERVICE
0406A	ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN	308	10 YEARS OF SERVICE
0413A	CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM	29	10 YEARS OF SERVICE
0414A	CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM	197	10 YEARS OF SERVICE
0423A	STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY	2,623	10 YEARS OF SERVICE
0425A	PRISON OFFICERS' PENSION FUND OF NEW JERSEY	0	10 YEARS OF SERVICE
0437A	CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND	240	10 YEARS OF SERVICE
0465A	LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES	117	10 YEARS OF SERVICE
0786A	VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN	16,861	10 YEARS OF SERVICE
0072A	ARKANSAS TEACHERS' RETIREMENT SYSTEM	58,528	10 YEARS OF SERVICE (7/1/98 -5 YEARS)
0278A	CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *	715,105	10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1
0121A	PENNSYLVANIA STATE EMPLOYES' RETIREMENT SYSTEM	112,044	10 YEARS OF SERVICE OR 3 YEARS AT AGE 60
0235B	NEBRASKA PERS STATE PATROL RETIREMENT PLAN	386	10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS
0057C	WYOMING PAID FIREMEN'S PLAN	282	10 YEARS OF SERVICEFOR PLAN A; 4YRS FOR PLAN B
0195H	MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT	2,537	10 YRS
0677A	Springfield Police & Fire Retirement System	500	10 YRS
0569A	City of Kingsford Police and Firemen Retirement System	20	10 yrs service
0174I	Washington Teachers' Retirement System -- Plan 3	35,284	age 65 with at least 10 years of service
0619A	Holyoke Contributory Retirement System	1,407	10 yrs srv/age 55 20 yrs srv/any age
0124A	CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.	486	100% AFTER 10 YEARS
0497A	Macon Water Authority Employee Pension Plan	200	vested with 10 yrs. service
0060B	STATE COLLEGE BOROUGH - POLICE PLAN	60	12 YEARS
0193B	KANSAS POLICE AND FIRE RETIREMENT SYSTEM	6,560	15 YEARS
0407D	FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER	2,220	15 YEARS (10 AT AGE 55)
0174H	WASHINGTON JUDICIAL RETIREMENT SYSTEM	38	15 YEARS OF SERVICE
0418A	POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI	1,263	15 YEARS OF SERVICE
0376A	West Virginia Judges Retirement System (JRS)	52	16 years service
0183B	State of Michigan Defined Contribution Retirement Plan	234	2 years = 50% , 3 years = 75%, 4 yrs = 100%
0185B	State of Michigan Defined Contribution Retirement Plan	12,635	2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%
0009A	THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO	13,858	20 YEARS
0019A	OHIO STATE HIGHWAY PATROL RETIREMENT PLAN	1,545	20 YEARS
0759A	HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND	3,276	20 YEARS
0372D	JUDICIAL RETIREMENT BENEFITS TRUST	29	20 YEARS AGE 65, OR 15 YEARS AGE 75
0025A	CLAIR T. SINGERMAN EMPLOYEE RETIREMENT SYSTEM	374	20 YEARS AND AGE 55
0092A	FIRE AND POLICE PENSION FUND, SAN ANTONIO	3,500	20 YEARS OF SERVICE
0190A	TEXAS COUNTY AND DISTRICT RETIREMENT PLAN	90,633	8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION
0386A	COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS	15,000	IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS
0043A	MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN	47,920	3 YEARS
0043B	MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN	830	3 YEARS
0043C	MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN	2,882	3 YEARS
0133A	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN	135,560	3 YEARS
0133B	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN	9,627	3 YEARS
0462B	Employees' Retirement System of Montgomery County (DC Plan)Retirement Savings Plan	2,544	3 YEARS
0405A	MINNESOTA TEACHERS RETIREMENT ASSOCIATION	70,508	3 YEARS OF ALLOWABLE SERVICE

0023A	BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE	165	3 YEARS OF SERVICE
0023B	BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES	534	3 YEARS OF SERVICE
0055A	NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT	10,025	3 YEARS OF SERVICE
0178A	SOUTH DAKOTA RETIREMENT SYSTEM	34,180	3 YEARS OF SERVICE
0006A	PERS OF MISSISSIPPI GENERAL PLAN	151,790	4 YEARS
0057D	WYOMING PUBLIC EMPLOYEES' SYSTEM	31,492	4 YEARS
0165E	UTAH FIREFIGHTER'S RETIREMENT SYSTEM	1,452	4 YEARS
0165A	UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM	3,972	4 YEARS OF SERVICE
0165B	UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM	81,894	4 YEARS OF SERVICE
0165C	UTAH PUBLIC SAFETY PLAN	6,839	4 YEARS OF SERVICE
0165F	UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN	88	4 YEARS OF SERVICE
0452A	Municipal Fire & Police Retirement System of Iowa	3,843	4 years of service
0278B	CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM	28	4 YEARS OF SERVICE CREDIT
0066A	EMPLOYEES' RETIREMENT SYSTEM OF TEXAS	152,167	5 YEARS
0376C	West Virginia Public Safety Death, Disability and Retirement Plan□□(Trooper Plan A)	360	5 years
0211A	MENDOCINO COUNTY ERA	1,347	5 YEARS
0278C	JUDGES' RETIREMENT SYSTEM I (JRS I)	1,091	5 YEARS
0376E	West Virginia Teacher's Retirement System (TRS)	25,278	5 years
0376F	West Virginia Public Employees Retirement System (PERS)	33,976	5 years contributory service
0013A	PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	234,210	5 YEARS OF SERVICE
0043D	MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN	282	5 YEARS OF SERVICE
0048B	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS	77,419	5 YEARS OF SERVICE
0048C	KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS	4,007	5 YEARS OF SERVICE
0036A	MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN	28,491	5 YEARS OF SERVICE
0001A	PERS OF NEVADA GENERAL EMPLOYEES' PLAN	71,924	5 YEARS OF SERVICE
0001B	PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN	8,910	5 YEARS OF SERVICE
0003A	SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN	204,710	5 YEARS OF SERVICE
0003B	SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN	24,827	5 YEARS OF SERVICE
0005B	RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN	351	5 YEARS OF SERVICE
0048D	KENTUCKY STATE POLICE RETIREMENT SYSTEM	1,023	5 YEARS OF SERVICE
0048E	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS	7,951	5 YEARS OF SERVICE
0058A	CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN	1,613	5 YEARS OF SERVICE
0060A	STATE COLLEGE BOROUGH - GENERAL PLAN	126	5 YEARS OF SERVICE
0062A	PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND	1,546	5 YEARS OF SERVICE
0147A	PERS OF IDAHO - GENERAL MEMBERS	55,297	5 YEARS OF SERVICE
0147B	PERS OF IDAHO - POLICE/FIRE MEMBERS	5,091	5 YEARS OF SERVICE
0195G	MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM	419	5 YEARS OF SERVICE
0376B	West Virginia Deputy Sheriff's Retirement System (DSRS)	468	5 years of service
0070A	TACOMA EMPLOYEES' RETIREMENT SYSTEM	2,814	5 YEARS OF SERVICE
0075A	Defined Benefit Plan for City Employees	6,655	5 YEARS OF SERVICE
0075B	City of Cincinnati Employees Retirement System	6,655	5 YEARS OF SERVICE
0079A	OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM	113,811	5 YEARS OF SERVICE
0095A	FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM	1,363	5 YEARS OF SERVICE
0096A	TEACHER RETIREMENT SYSTEM OF TEXAS	0	5 YEARS OF SERVICE
0097A	LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES	495	5 YEARS OF SERVICE
0104A	TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	190,344	5 YEARS OF SERVICE
0107A	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN	385,530	5 YEARS OF SERVICE
0109A	TUCSON SUPPLEMENTAL RETIREMENT SYSTEM	3,484	5 YEARS OF SERVICE
0111A	PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO	35,400	5 YEARS OF SERVICE
0113A	VIRGINIA RETIREMENT SYSTEM	286,234	5 YEARS OF SERVICE
0125A	PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO	162,106	5 YEARS OF SERVICE
0126A	FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM	1,570	5 YEARS OF SERVICE
0127A	FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM	13,044	5 YEARS OF SERVICE
0128A	FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM	1,115	5 YEARS OF SERVICE
0137A	NEW YORK STATE TEACHERS' RETIREMENT SYSTEM	224,986	5 YEARS OF SERVICE
0138A	MISSOURI STATE EMPLOYEES' RETIREMENT PLAN	57,774	5 YEARS OF SERVICE

0138D	MISSOURI STATE EMPLOYEES' PLAN 2000	0	5 years of service
0143A	ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN	316	5 YEARS OF SERVICE
0144A	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	158,988	5 YEARS OF SERVICE
0146A	LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL	7,560	5 YEARS OF SERVICE
0147C	PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)	129	5 YEARS OF SERVICE
0154A	NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL	17,231	5 YEARS OF SERVICE
0159A	FORT WORTH EMPLOYEES' RETIREMENT FUND	5,423	5 YEARS OF SERVICE
0174A	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I	28,167	5 YEARS OF SERVICE
0174B	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II	168,213	5 YEARS OF SERVICE
0174C	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I	18,737	5 YEARS OF SERVICE
0174D	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III	8,663	5 YEARS OF SERVICE
0174E	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I	1,743	5 YEARS OF SERVICE
0174F	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II	12,713	5 YEARS OF SERVICE
0174G	WASHINGTON STATE PATROL RETIREMENT SYSTEM	968	5 YEARS OF SERVICE
0177A	PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS	6,100	5 YEARS OF SERVICE
0194A	CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL	7,436	5 YEARS OF SERVICE
0194B	CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE	1,674	5 YEARS OF SERVICE
0195A	MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	28,091	5 YEARS OF SERVICE
0195B	MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM	494	5 YEARS OF SERVICE
0195C	MONTANA JUDGES RETIREMENT SYSTEM	46	5 YEARS OF SERVICE
0195D	MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM	190	5 YEARS OF SERVICE
0195E	MONTANA SHERIFFS RETIREMENT SYSTEM	611	5 YEARS OF SERVICE
0195F	MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM	571	5 YEARS OF SERVICE
0202A	NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL	720,223	5 YEARS OF SERVICE
0202B	NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM	31,955	5 YEARS OF SERVICE
0206A	MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	2,968	5 YEARS OF SERVICE
0221A	EAST BAY MUNICIPAL UTILITY DISTRICT	1,853	5 YEARS OF SERVICE
0224D	LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP	427	5 YEARS OF SERVICE
0231A	AURORA GENERAL EMPLOYEES RETIREMENT PLAN	1,493	5 YEARS OF SERVICE
0236A	NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES	14,689	5 YEARS OF SERVICE
0236B	NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES	6,872	5 YEARS OF SERVICE
0245A	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS	72,365	5 YEARS OF SERVICE
0245B	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)	5,680	5 YEARS OF SERVICE
0277A	CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN	5,948	5 YEARS OF SERVICE
0278D	CALIFORNIA JUDGES RETIREMENT FUND (II)	445	5 YEARS OF SERVICE
0291A	MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN	7,246	5 YEARS OF SERVICE
0303A	ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	0	5 YEARS OF SERVICE
0315A	LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM	24,234	5 YEARS OF SERVICE
0321A	SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	5,231	5 YEARS OF SERVICE
0325A	CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN	377	5 YEARS OF SERVICE
0353A	DENVER EMPLOYEES RETIREMENT PLAN	10,821	5 YEARS OF SERVICE
0368A	Denver Public Schools Retirement System	7,182	5 YEARS OF SERVICE
0373A	PERA OF NEW MEXICO	54,647	5 YEARS OF SERVICE
0374A	STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND	178,456	5 YEARS OF SERVICE
0379A	Kern County Employees' Retirement Assocation	7,109	5 years of service
0387A	CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN	231	5 YEARS OF SERVICE
0387B	CITY OF ENGLEWOOD POLICE PENSION PLAN	11	5 YEARS OF SERVICE
0387C	CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN	10	5 YEARS OF SERVICE
0388B	TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN	14	5 YEARS OF SERVICE
0388C	TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN	32	5 YEARS OF SERVICE
0388D	TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN	38	5 YEARS OF SERVICE
0388E	Town of Avon 401(a) f.t.Employees' Plan	26	5 YEARS OF SERVICE
0419A	CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO.	583	5 YEARS OF SERVICE
0422A	MONTANA TEACHERS' RETIREMENT SYSTEM	18,205	5 YEARS OF SERVICE
0424A	JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY	414	5 YEARS OF SERVICE
0449A	EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA	1,389	5 YEARS OF SERVICE

0453A	CITY OF ARNOLD (MO) POLICE PENSION PLAN	46	5 YEARS OF SERVICE
0454A	SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION	15,858	5 YEARS OF SERVICE
0462A	Employees' Retirement System of Montgomery County	6,396	5 YEARS OF SERVICE
0737A	Town of Suffield Pension Plan	138	5 years of service
0146D	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL	31,300	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146F	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY	2,005	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146G	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY	9,259	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146B	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL	556	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0146C	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL	413	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0063A	TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS	144,975	5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS
0034A	ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM	7,983	5 YRS
0700A	Defined Benefit - Douglas County Employees Retirement Trust	0	5 yrs
0542A	City of St Petersburg Employee Retirement System	1,796	5 yrs of service
0160A	VIA METROPOLITAN TRANSIT RETIREMENT PLAN	1,409	50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE
0043E	MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN	173	6 YEARS
0057A	WYOMING WARDEN AND PATROL RETIREMENT PLAN	260	6 YEARS
0165D	UTAH JUDGES' RETIREMENT SYSTEM	104	6 YEARS OF SERVICE
0310A	Iowa Judicial Retirement Fund	194	6 years of service
0007C	ILLINOIS JUDGES' RETIREMENT SYSTEM	908	6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AG
0145A	PERS OF OHIO - STATE AND LOCAL DIVISION	392,530	60 CONTRIBUTING MONTHS
0145B	PERS OF OHIO - LAW ENFORCEMENT DIVISION	7,389	60 CONTRIBUTING MONTHS
0156A	WICHITA EMPLOYEES' RETIREMENT PLAN	1,018	7 YEARS OF SERVICE
0156C	Wichita Employees' Retirement System Plan 3	878	7 years of service
0217A	LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN	121	7 YEARS OF SERVICE
0217B	LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS	636	7 YEARS OF SERVICE
0542B	City of St Petersburg Firefighters Retirement System	298	7 years of service
0542C	City of St Petersburg Police Officers Retirement System	457	7 years of service
0371A	SHELBY COUNTY RETIREMENT SYSTEM	6,271	71/2 YEARS OF SERVICE
0007A	ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM	80,676	8 YEARS
0037A	KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN	1,064	8 YEARS
0043F	MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN	0	8 YEARS
0064D	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE	210	8 YEARS
0110A	ILLINOIS MUNICIPAL RETIREMENT FUND	157,816	8 YEARS
0169A	OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM	42,886	8 YEARS
0173A	WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM	5,407	8 YEARS
0183A	MICHIGAN JUDGES RETIREMENT SYSTEM	399	8 YEARS
0007B	ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM	181	8 YEARS (AGE 55); 4 YEARS (AGE 62)
0289A	GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN	375	8 YEARS OF SERVICE
0304A	ALASKA TEACHERS' RETIREMENT SYSTEM	9,164	8 YEARS OF SERVICE
0329A	CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM	1,176	8 YEARS OF SERVICE
0451A	ELK COUNTY EMPLOYEES' RETIREMENT PLAN	132	8 YEARS OF SERVICE
0474A	VILLAGE OF MOUNT PROSPECT-POLICE	82	8 YEARS OF SERVICE
0195I	MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION	7,048	ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT
0087B	NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN	14,114	AGE 60 W/ ANY YEARS
0235A	NEBRASKA PERS SCHOOL PLAN	34,718	AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE
0426A	CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)	43,331	CLOSED PLAN, NO ACTIVE MEMBERS
0098A	WISCONSIN RETIREMENT SYSTEM	258,195	IMMEDIATE VESTING
0107B	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM	9,552	IMMEDIATE VESTING
0138B	MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN	52	IMMEDIATE VESTING
0138C	MISSOURI REGULAR JUDGES' RETIREMENT PLAN	375	IMMEDIATE VESTING
0235C	NEBRASKA PERS JUDGES' RETIREMENT PLAN	157	IMMEDIATE VESTING
0505A	VILLAGE OF BOLINGBROOK POLICE PENSION PLAN	86	IMMEDIATE VESTING
0542D	City of St Petersburg	100	immediate vesting
0057B	WYOMING VOLUNTEER FIREMEN'S PLAN	2,118	MUST BE VOLUNTEER UNTIL AGE 60
0090A	Charlotte Firefighters' Retirement Plan	0	
0534A	Miami Shores General Employees Retirement Plan	0	

AN ACT Relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.875 and 2000 c 247 s 903 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817((~~;~~))
shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed

according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 2. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510((~~;~~))

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member

retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 3. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795((~~;~~))

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**11/02/04**	**Z-0180.1/Z-0181.1**

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after session.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, 52,612 out of 92,521 Plan 3 members had less than 10 years of service or were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to leave public employment with between 5 to 10 years of service and before they earned 12 months of service after age 54.

System / Plan	Vested	Non-Vested
PERS 3	9,771	7,777
TRS 3	18,646	28,617
SERS 3	11,492	16,218

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the affected systems by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)	**PERS 2/3**	$ 14,278	$ 5	$ 14,283
	TRS 2/3	$ 5,220	$ 12	$ 5,232
	SERS 2/3	$ 2,138	$ 8	$ 2,146
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)		NA	NA	NA
Unfunded Liability (PBO)	**PERS 2/3**	$ (3,184)	$ 2	$ (3,182)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	**TRS 2/3**	$ (1,397)	$ 6	$ (1,391)
	SERS 2/3	$ (425)	$ 4	$ (421)

Increase in Contribution Rates:
(Effective 09/01/2005)

Employee (plan 2 members only)	**PERS 2/3**	0.01%
	TRS 2/3	0.03%
	SERS 2/3	0.05%
Employer State	**PERS 2/3**	0.01%
	TRS 2/3	0.03%
	SERS 2/3	0.06%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2005-2007				
State:				
General Fund	$0.5	$2.4	$1.5	$4.4
Non-General Fund	0.8	0.0	0.0	0.8
Total State	**1.3**	**2.4**	**1.5**	**5.2**
Local Government	1.2	0.5	1.3	3.0
Total Employer	2.5	2.9	2.8	8.2
Total Employee	$1.5	$0.3	$0.5	$2.3
2007-2009				
State:				
General Fund	$0.7	$2.9	$2.0	$5.6
Non-General Fund	1.2	0.0	0.0	1.2
Total State	**1.9**	**2.9**	**2.0**	**6.8**
Local Government	1.7	0.6	1.8	4.1
Total Employer	3.6	3.5	3.8	10.9
Total Employee	$2.1	$0.3	$0.4	$2.8
2005-2030				
State:				
General Fund	$27.3	$85.9	$71.7	$184.9
Non-General Fund	45.1	0.0	0.0	45.1
Total State	**72.4**	**85.9**	**71.7**	**230.0**
Local Government	64.2	17.6	63.6	145.4
Total Employer	136.6	103.5	135.3	375.4
Total Employee	$69.8	$1.8	$3.3	$74.9

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter - Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers Retirement System, School Employee's Retirement System, and Public Employee's Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. The entry age normal cost increase for the bill is 0.04% for PERS Plan 2 members, 0.04% for PERS employers, 0.06% for TRS employers, and 0.20% for SERS employers. The entry age normal cost increase was used to determine the increase in funding expenditures for future new entrants.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by Plan assets.

Part-time Educational Staff Associates

(October 26, 2004)

Issue	Allow Certified Educational Staff Associates (ESAs) in the Teachers Retirement System (TRS) Plan 1 to annualize their salaries when calculating their average final compensation so they may receive proportionate retirement benefits.
Staff	Laura Harper, Senior Research Analyst/Legal (360) 586-7616
Members Impacted	This proposal impacts part-time ESAs in Plan 1 of the Teachers' Retirement System (TRS). We estimate that there are 30 part-time ESAs out of 11,175 members in TRS 1.
Current Situation	Current TRS 1 statutes allow less-than-full-time members who spend more than seventy-five percent of their time as classroom instructors, librarians, or counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. School Counselors are Certified ESAs, and are the only category of ESAs allowed to annualize their salaries in the same manner as teachers and librarians. Other categories of ESAs include Psychologists, Social Workers, Nurses, Physical Therapists, Occupational Therapists and Speech Language Pathologists or Audiologists. None of these latter categories are currently allowed to annualize their salaries in order to receive proportionate retirement benefits for less-than-full-time service.

Example

Under current law an ESA who is not a counselor and who works half-time for 30 years receives half the retirement benefit of a counselor despite making the same salary and contributions.

	Full-Time ESA	Half-Time Counselor	Half-Time Nurse
Salary	$50,000	$25,000	$25,000
Annual Contributions	$3,000	$1,500	$1,500
Retirement Benefit	$30,000	**$15,000**	**$7,500**

History

This proposal was introduced to the Joint Committee on Pension Policy by correspondence from the Chair of the Professional Educator Standards Board dated October 29, 2002. The Joint Committee deferred consideration of this matter until 2003. At the end of 2003, the Select Committee on Pension Policy voted to recommend legislation for the 2004 session. SB 6250/HB 2542 passed in the House but stalled in Senate Rules.

Policy Analysis

There are seven Educational Staff Associate (ESA) positions employed by school districts: School Counselor, Psychologist, Social Worker, Nurse, Physical Therapist, Occupational Therapist, and Speech Language Pathologist or Audiologist. As in the case of teachers, those engaged in these activities must be certified.

According to the Superintendent of Public Instruction, the educational standards and certification course for these positions may be more rigorous than that of teachers. Counselors, psychologists, social workers and speech language pathologists/audiologists all require a Master's degree plus passage of a state-approved 30-hour certification course. Occupational therapists, physical therapists, and nurses require a Bachelor's degree plus the same 30-hour certification course.

The Legislative Evaluation and Accountability Program (LEAP) quantifies the education and training requirements for these positions in what is called a **mix factor.** A position with a mix factor of 1 requires a Bachelor's degree and no experience. In the latest School District Personnel Summary Profiles for the 2002-2003 school year, the mix factors for ESAs averaged 1.67 while the mix factor for teachers averaged 1.58.

There appears to be no particular reason why Counselors can annualize their salary in the same manner as teachers and librarians while other ESAs cannot. The proposal before the SCPP is to bring consistency to the treatment of part-time ESAs by allowing all of them to annualize their salaries so as to receive proportionate retirement benefits.

Stakeholder Input

See attachment from the Professional Educator Standards Board dated October 29, 2002.

Options

Only one option is proposed: to allow all currently excluded part-time ESAs in TRS 1 to annualize their salaries for determining their average final compensation and thus receive proportionate retirement benefits.

Bill Draft

A proposed bill draft is attached.

Fiscal Note (Draft)

A draft fiscal note on the proposed bill is attached.

STATE OF WASHINGTON
PROFESSIONAL EDUCATOR STANDARDS BOARD
Old Capitol Building, P.O. Box 47236 • Olympia, WA 98504-7236 • (360) 725-6275 • Fax (360) 586-4548
www.pesb.wa.gov

October 29, 2002

The Honorable Don Carlson
Washington State Senator
Chair, Joint Committee on Pension Policy
P. O. Box 40449
Olympia, WA 98504-0449

Dear Senator Carlson:

According to RCW 41.32.010, public school district or community college employees in an instructional position employed less than full-time and participating in the Teachers' Retirement System (TRS) may elect to have earnable compensation defined as the compensation the member would have received in the same position if employed on a regular full-time basis for the same contract period. This is for the purpose of calculating retirement benefits to ensure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit. The RCW defines "instructional position", however, as a position in which more than seventy-five percent of the member's time is spent as a classroom instructor, (including office hours), a librarian, or a school counselor. ESAs typically spend more than 75% of their day in direct contact with students, just not as "classroom instructors" as required by the current statute.

The Professional Educator Standards Board advises state policymakers on issues affecting certified Washington educators, including certified educational staff associates (ESAs). Through our work we've become keenly aware of the crucial role all ESAs play in supporting student learning. In addition to the role of school counselors referenced in RCW 41.32, certified ESAs also include school psychologists, social workers, speech and language pathologists, audiologists, school nurses, school occupational therapists, and school physical therapists.

More than ever, children arrive at school doors with complex needs that are real barriers to learning. By addressing the physical, emotional, social and educational needs of the whole child, ESAs make it possible for learning to occur. We, along with the Washington Education Association, encourage the Joint Committee on Pension Policy to consider recommending to the legislature a change in current RCW that recognizes the contribution of these ESAs and expands the definition of members eligible for this provision to include all ESAs. We roughly estimate this provision would affect at the most 600 certified Educational Staff Associates, but recognize that the Office of the State Actuary is better positioned to determine the true fiscal impact of this policy change.

We realize, and apologize, that this is quite late in the legislative interim process. We appreciate the workload the JCPP has taken upon itself this interim, and hope that you can find time to address this one small additional issue.

Sincerely,

Carolyn D Bradley

Carolyn Bradley
Chair

cc: Members of the Joint Committee on Pension Policy

AN ACT Relating to allowing members of the teachers' retirement system plan 1 who are employed less than full time as psychologists, social workers, nurses, physical therapists, occupational therapists, or speech language pathologists or audiologists to annualize their salaries when calculating their average final compensation; and amending RCW 41.32.010.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.010 and 2003 c 31 s 1 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, a psychologist, a social worker, a nurse, a physical therapist, an occupational therapist, a speech language pathologist or audiologist, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

(ii) In any year in which a member serves in the legislature the member shall have the option of having such member's earnable compensation be the greater of:

(A) The earnable compensation the member would have received had such member not served in the legislature; or

(B) Such member's actual earnable compensation received for teaching and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions.

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

(23) "Regular interest" means such rate as the director may determine.

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132;

(ii) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period;

(iii) All other members in an eligible position or as a substitute teacher shall receive service credit as follows:

(A) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(B) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(C) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iv) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(v) When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

(vi) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(vii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(viii) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3 providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

(41) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items compiled by the bureau of labor statistics, United States department of labor.

(42) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means, initially, fifty-nine cents per month

per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**10/27/04**	**Z-0178.1/Z-0179.1**

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) Plan 1 by allowing Certified Educational Staff Associates (ESAs) to annualize their salaries when calculating their average final compensation so they may receive proportionate retirement benefits.

Effective Date: 90 days after session

CURRENT SITUATION:

Current TRS 1 statutes allow less-than-full-time members who spend more than seventy-five percent of their time as classroom instructors, librarians or counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. School counselors are Certified ESAs, and are the only category of ESAs allowed to annualize their salaries in the same manner as teachers and librarians. Other categories of ESAs (not allowed to annualize their salaries) include Psychologists, Social Workers, Nurses, Physical Therapists and Speech Language Pathologists or Audiologists.

MEMBERS IMPACTED:

We estimate that 30 TRS 1 active members out of the total 11,175 active members of this system would be affected by this bill because they are in the category of ESA that would be added and they earned less than a full year of service in the most recent year.

We estimate that for a typical member impacted by this bill, the increase in benefits would be to double their benefit (based on annualizing their pay using their service credit - the actual annualizing could be different). These 30 members currently have 14.0 years of service and estimated average final compensation of $31,133 and a benefit of $8,717 before this change. After this change their estimated average final compensation would be $50,261 and their current benefit would increase to $14,073.

ASSUMPTIONS:

In absence of individual member data we assumed that the member's pay would increase in proportion to their fractional service credit. In other words, a member who currently receives half a year of service credit would have their average final compensation doubled for this purpose. The average valuation years of service for the group was 0.62, so their average compensation would increase by 1/0.62, or 61.29%.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

	Teachers Retirement System Plan 1		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$10,767	$1.9	$10,769
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$1,416	$1.9	$1,418
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$1,121	$1.5	$1,123

Increase in Contribution Rates:	
Employee	N/A
Employer State	0.0037%

Fiscal Budget Determinations:

None. The estimated increase in the required employer contribution rate is less than .005% and therefore will not round up to the minimum increase of .01%.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Age 70½ and Opt-in/Opt-out

(October 27, 2004)

Subgroup Proposal

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction. Such individuals would continue to draw a salary but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reelected after the effective date of the act.

Also allow members of TRS Plans 2 and 3, SERS, and PERS holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance

Staff

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Members Impacted

This proposal would impact all PERS, SERS, and TRS members who desire to work beyond age 70½, and all members of PERS, SERS, and TRS 2/3 who hold state elective office.

As of the 2003 valuation there were 502 vested members of PERS, SERS, and TRS who were still working at age 70½.

At last count there were 139 state elective officials who were plan members without other public employment.

Current Situation

After separating from employment for one month, PERS and SERS retirees may return to work for up to 867 hours in a calendar year before their benefit is suspended. PERS 1 retirees who separated for 3 months may return to work for up to 1,500 hours in a calendar year before their benefit is suspended.

After separating from employment for one month, TRS 1 retirees may return to work for up to 1,500 hours in a school year before their benefit is suspended. After separating from employment for one month, TRS 2/3 retirees may return to work for up to 867 hours in a school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 Plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.

History

During the 2002 Interim, the Joint Committee on Pension Policy (JCPP) forwarded companion bills SB 5093 and HB 1209 to the 2003 legislature. These bills would have allowed members of PERS, SERS, and TRS Plans 1, 2 and 3 who have attained age 70½ and meet the vesting requirements of their plan to apply for retirement benefits without requiring that they separate from service. Such retirees would not be allowed to continue to make contributions and earn service credit. The bill passed in the Senate but did not receive a hearing in the House.

The JCPP also forwarded companion bills HB 1201 and SB 5095 to the 2003 legislature. This legislation would have allowed PERS, SERS, TRS 2/3, or LEOFF 2 members holding state elective office the option, at the beginning of each term of office, of continuing active membership or retiring and beginning their retirement allowance. SB 5095 passed the Senate. HB 1201 did not receive a hearing in the House.

Policy Analysis

The age 70½ issue was originally thought to involve compliance to federal rules mandating distribution of retirement allowances at age 70½.. When it was discovered that those rules were optional and only applied to private plans the state provisions were repealed. This issue has now evolved from one in which older members may receive retirement benefits without separating from employment, to a post-retirement employment issue where members must separate from employment before being eligible for the benefit. This would establish a new policy in the post-retirement employment arena adding to the current inconsistency between the plans.

The opt-in/opt-out issue is one in which inconsistencies already exist in the provisions of the various systems and plans. This proposal would remove much of that inconsistency, and standardize the optional membership of elected officials in a manner similar to existing TRS 1 provisions.

Executive Committee Recommendation

Forward the subgroup proposal to the full committee for public hearing.

Bill (Draft)

Attached

Fiscal Note (Draft)

Attached

AN ACT Relating to allowing certain members of the teachers', school employees', and public employees' retirement systems to return to work without restrictions or begin receiving their retirement allowance before separation from state elective office; amending RCW 41.32.010, 41.32.263, 41.35.030, and 41.40.023; adding a new section to chapter 41.32 RCW; adding a new section to chapter 41.35 RCW; and adding a new section to chapter 41.40 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW to read as follows:

A member who retires on or after attainment of age seventy and one-half and enters employment with an employer at least one month after his or her accrual date may continue to receive pension payments while engaged in such service without restriction. The retiree is no longer an active member and may not make contributions, or receive service credit, for future periods of employment while receiving his or her retirement allowance. This section does not apply to any member who is a state elected official unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.35 RCW to read as follows:

A member who retires on or after attainment of age seventy and one-half and enters employment with an employer at least one month after his or her accrual date may continue to receive pension payments while engaged in such service without restriction. The retiree is no longer an active member and may not make contributions, or receive service credit, for future periods of employment while receiving his or her retirement allowance. This section does not apply to any member who is a state elected official unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW to read as follows:

A member who retires on or after attainment of age seventy and one-half and enters employment with an employer at least one month after his or her accrual date may continue to receive pension payments while engaged in such service without restriction. The retiree is no longer an active member and may not make contributions, or receive service credit, for future periods of employment while receiving his or her retirement allowance. This section does not apply to any member who is a state elected official unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

Sec. 4. RCW 41.32.010 and 2003 c 31 s 1 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when

computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

(ii) In any year in which a member serves in the legislature the member shall have the option of having such member's earnable compensation be the greater of:

(A) The earnable compensation the member would have received had such member not served in the legislature; or

(B) Such member's actual earnable compensation received for teaching and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions.

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

(23) "Regular interest" means such rate as the director may determine.

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132((~~;~~)).

(ii) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period((~~;~~)).

(iii) All other members in an eligible position or as a substitute teacher shall receive service credit as follows:

(A) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(B) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(C) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iv) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(v) <u>Any member of the teachers' retirement system plan 2 or plan 3 who is elected to the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term.</u>

<u>(vi) Any member of the teachers' retirement system plan 2 or plan 3 who is elected to a state elective position other than the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official other than a state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term.</u>

<u>(vii)</u> When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

((~~(vi)~~)) <u>(viii)</u> As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

((~~(vii)~~)) (ix) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

((~~(viii)~~)) (x) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3

providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

(41) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items compiled by the bureau of labor statistics, United States department of labor.

(42) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

Sec. 5. RCW 41.32.263 and 1991 c 35 s 41 are each amended to read as follows:

A member of the retirement system who is a member of the state legislature or a state official eligible for the combined pension and annuity provided by RCW 41.32.497((~~,~~)) or 41.32.498((~~, as now or hereafter amended~~)) shall have deductions taken from his or her salary in the amount of seven and one-half percent of earnable compensation and that service credit shall be established with the retirement system while such deductions are reported to the retirement system, unless he or she has by reason of his or her employment become a contributing member of another public retirement system in the state of Washington. Such elected official who has retired or otherwise terminated his or her public school service may then elect to terminate his or her membership in the retirement system and receive retirement benefits while continuing to serve as an elected official. A member of the retirement system who had previous service as an elected or appointed official, for which he or she did not contribute to the retirement system, may receive credit for such legislative service unless he or she has received credit for that service in another state retirement system, upon making contributions in such amounts as shall be determined by the ((~~board of trustees~~)) director.

Sec. 6. RCW 41.35.030 and 2003 c 157 s 2 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated classified employees and appointive and elective officials of employers, as defined in this chapter, with the following exceptions:

(1) Persons in ineligible positions;

(2)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office other than state elective office who has elected to apply for membership pursuant to (a) of this subsection and who later ((~~wishes to be~~)) is eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member ((~~wishing to end~~)) ending his or her membership under this subsection must file on a form supplied by the department a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (2)(b);

(c) Any member of the school employees' retirement system plan 2 or plan 3 who is elected to the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(d) Any member of the school employees' retirement system plan 2 or plan 3 who is elected to a state elective position other than the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official other than a state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(3) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(4) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by employers

to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(5) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession;

(6) Substitute employees, except for the purposes of the purchase of service credit under rcw 41.35.033. Upon the return or termination of the absent employee a substitute employee is replacing, that substitute employee shall no longer be ineligible under this subsection;

(7) Employees who (a) are not citizens of the United States, (b) do not reside in the United States, and (c) perform duties outside of the United States;

(8) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(9) Employees who are citizens of the United States and who reside and perform duties for an employer outside of the United States: PROVIDED, That unless otherwise excluded under this chapter or chapter 41.04 RCW, the employee may apply for membership (a) within thirty days after employment in an eligible position and membership service credit shall be granted from the first day of membership service, and (b) after this thirty-day period, but membership service credit shall be granted only if payment is made for the noncredited membership service under RCW 41.50.165(2), otherwise service shall be from the date of application.

Sec. 7. RCW 41.40.023 and 2001 c 37 s 1 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated employees and appointive and elective officials of employers, as defined in this chapter, with the following exceptions:

(1) Persons in ineligible positions;

(2) Employees of the legislature except the officers thereof elected by the members of the senate and the house and legislative committees, unless membership of such employees be authorized by the said committee;

(3)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office other than state elective office who has elected to apply for membership pursuant to (a) of this subsection and who later ((~~wishes to be~~)) is eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member ((~~wishing to end~~)) ending his or her membership under this subsection must file, on a form supplied by the department, a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (3)(b);

(c) Any member of the public employees' retirement system who is elected to the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(d) Any member of the public employees' retirement system who is elected to a state elective position other than the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official other than a state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(4) Employees holding membership in, or receiving pension benefits under, any retirement plan operated wholly or in part by an agency of the state or political subdivision thereof, or who are by reason of their current employment contributing to or otherwise establishing the right to receive benefits from any such retirement plan except as follows:

(a) In any case where the retirement system has in existence an agreement with another retirement system in connection with exchange of service credit or an agreement whereby members can retain service credit in more than one system, such an employee shall be allowed membership rights should the agreement so provide;

(b) An employee shall be allowed membership if otherwise eligible while receiving survivor's benefits;

(c) An employee shall not either before or after June 7, 1984, be excluded from membership or denied service credit pursuant to this subsection solely on account of: (i) Membership in the plan created under chapter 2.14 RCW; or (ii) enrollment under the relief and compensation provisions or the pension provisions of the volunteer fire fighters' relief and pension fund under chapter 41.24 RCW;

(d) Except as provided in RCW 41.40.109, on or after July 25, 1999, an employee shall not be excluded from membership or denied service credit pursuant to this subsection solely on account of participation in a defined contribution pension plan qualified under section 401 of the internal revenue code;

(e) Employees who have been reported in the retirement system prior to July 25, 1999, and who participated during the same period of time in a defined contribution pension plan qualified under section 401 of the internal revenue code and operated wholly or in part by the employer, shall not be excluded from previous retirement system membership and service credit on account of such participation;

(5) Patient and inmate help in state charitable, penal, and correctional institutions;

(6) "Members" of a state veterans' home or state soldiers' home;

(7) Persons employed by an institution of higher learning or community college, primarily as an incident to and in furtherance of their education or training, or the education or training of a spouse;

(8) Employees of an institution of higher learning or community college during the period of service necessary to establish eligibility for membership in the retirement plans operated by such institutions;

(9) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession;

(10) Persons appointed after April 1, 1963, by the liquor control board as agency vendors;

(11) Employees of a labor guild, association, or organization: PROVIDED, That elective officials and employees of a labor guild, association, or organization which qualifies as an employer within this chapter shall have the option of applying for membership;

(12) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(13) Persons employed by or appointed or elected as an official of a first class city that has its own retirement system: PROVIDED, That any member elected or appointed to an elective office on or after April 1, 1971, shall have the option of continuing as a member of this system

in lieu of becoming a member of the city system. A member who elects to continue as a member of this system shall pay the appropriate member contributions and the city shall pay the employer contributions at the rates prescribed by this chapter. The city shall also transfer to this system all of such member's accumulated contributions together with such further amounts as necessary to equal all employee and employer contributions which would have been paid into this system on account of such service with the city and thereupon the member shall be granted credit for all such service. Any city that becomes an employer as defined in RCW 41.40.010(4) as the result of an individual's election under this subsection shall not be required to have all employees covered for retirement under the provisions of this chapter. Nothing in this subsection shall prohibit a city of the first class with its own retirement system from: (a) Transferring all of its current employees to the retirement system established under this chapter, or (b) allowing newly hired employees the option of continuing coverage under the retirement system established by this chapter.

Notwithstanding any other provision of this chapter, persons transferring from employment with a first class city of over four hundred thousand population that has its own retirement system to employment with the state department of agriculture may elect to remain within the retirement system of such city and the state shall pay the employer contributions for such persons at like rates as prescribed for employers of other members of such system;

(14) Employees who (a) are not citizens of the United States, (b) do not reside in the United States, and (c) perform duties outside of the United States;

(15) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(16) Employees who are citizens of the United States and who reside and perform duties for an employer outside of the United States: PROVIDED, That unless otherwise excluded under this chapter or chapter 41.04 RCW, the employee may apply for membership (a) within thirty days after employment in an eligible position and membership service credit

shall be granted from the first day of membership service, and (b) after this thirty-day period, but membership service credit shall be granted only if payment is made for the noncredited membership service under RCW 41.50.165(2), otherwise service shall be from the date of application;

(17) The city manager or chief administrative officer of a city or town, other than a retiree, who serves at the pleasure of an appointing authority: PROVIDED, That such persons shall have the option of applying for membership within thirty days from date of their appointment to such positions. Persons serving in such positions as of April 4, 1986, shall continue to be members in the retirement system unless they notify the director in writing prior to December 31, 1986, of their desire to withdraw from membership in the retirement system. A member who withdraws from membership in the system under this section shall receive a refund of the member's accumulated contributions.

Persons serving in such positions who have not opted for membership within the specified thirty days, may do so by paying the amount required under RCW 41.50.165(2) for the period from the date of their appointment to the date of acceptance into membership;

(18) Persons serving as: (a) The chief administrative officer of a public utility district as defined in RCW 54.16.100; (b) the chief administrative officer of a port district formed under chapter 53.04 RCW; or (c) the chief administrative officer of a county who serves at the pleasure of an appointing authority: PROVIDED, That such persons shall have the option of applying for membership within thirty days from the date of their appointment to such positions. Persons serving in such positions as of July 25, 1999, shall continue to be members in the retirement system unless they notify the director in writing prior to December 31, 1999, of their desire to withdraw from membership in the retirement system. A member who withdraws from membership in the system under this section shall receive a refund of the member's accumulated contributions upon termination of employment or as otherwise consistent with the plan's tax qualification status as defined in internal revenue code section 401.

Persons serving in such positions who have not opted for membership within the specified thirty days, may do so at a later date by paying the amount required under RCW 41.50.165(2) for the period from the date of their appointment to the date of acceptance into membership;

(19) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by local governments to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(20) Beginning on July 22, 2001, persons employed exclusively as trainers or trainees in resident apprentice training programs operated by housing authorities authorized under chapter 35.82 RCW, (a) if the trainer or trainee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or (b) if the employee is a member of a Taft-Hartley retirement plan.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**11/03/2004**	**Z-0195.2/Z-0196.2**

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System, School Employee's Retirement System, and Teachers Retirement System Plans 2 and 3 by allowing members who retire on or after age seventy and one-half, and who fulfill the 1 month separation requirement, to return to work without restriction; upon receipt of retirement benefits such an individual would cease active membership and no longer make contributions nor receive service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, or are re-elected after the effective date of the act.

The bill also allows state elective officials the option to continue or resume membership, and if otherwise eligible, retire and receive their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

CURRENT SITUATION:

After a one-month separation, PERS, SERS, and TRS 2/3 retirees may return to work for 867 hours per calendar year or school year before their benefit is suspended. PERS 1 members may return to work after a 3-month separation and work up to 1,500 hours per calendar year before their benefit is suspended. TRS 1 members may return to work after a one-month separation and work for up to 1,500 hours per school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System Plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

MEMBERS IMPACTED:

We estimate that potentially all active members in these systems could be affected by the age 70 1/2 portion of this bill. Active members currently over age 70 1/2 would be impacted on the effective date of the bill. This includes 342 out of 154,550 active members in PERS, 28 out of 66,075 in TRS, and 132 out of 49,214 in SERS.

We estimate that relatively few members in these systems could be affected by the opt in/opt out portion of this bill, although nearly all members could potentially become elected officials. The opt in/opt out portion of the bill would impact the current state elected officials in the systems if they are reelected following the effective date. This includes 129 active members in PERS, 1 in TRS (not including 4 in TRS 1 who already have the opt in/opt out provision), and 0 in SERS.

We estimate that a typical member impacted by the age 70 1/2 provision of this bill would receive a benefit of about $11,700 per year, but would give up additional benefit accruals of about $1,000 per year. For example, a PERS member who retired at age 74 with 19 years of service would receive an annual benefit of $13,200; waiting one additional year to retire would result in an annual benefit of $14,400. A typical SERS member who retired at age 74 with 12 years of service would receive an annual benefit of $4,600; waiting one additional year to retire would result in an annual benefit of $5,200. The impact on long service members over age 70 1/2, and not subject to the 30 year service cap, is greater than the impact on short service members.

ASSUMPTIONS:

Our current retirement rate assumptions have all members retiring at age 70 or earlier. The members over 70 1/2 who continue working after we have assumed they will retire typically produce an actuarial experience gain to the system. In general, the benefits earned for each year of additional service and increases in pay after age 70 are not as valuable as the retirement benefits that could have been received in the year. This is especially true for Plan 1 members who already have hit the 30 year maximum on service.

To determine the cost of the age 70 1/2 provision, we started with an assumption change for the retirement rates at age 70 and beyond. For PERS and SERS, we replaced our 100% retirement assumption at age 70 with 25% per year from age 70 to 81 and 100% at age 82. We did not change the rates before age 70. For TRS, we did not change our 100% assumption at age 70, because the number of active TRS members working past age 70 is not significant compared to PERS and SERS, and the oldest active TRS member is 77, compared to 87 in both PERS and SERS. So we would not expect any significant cost impact for TRS.

For PERS and SERS, we compared the costs of the plans with the new retirement assumption to the costs using an alternative retirement assumption. We increased the 25% rate to 37.5% as an estimate of how many more active members over age 70 1/2 would retire after the bill is effective.

FISCAL IMPACT:

Description:

The postponed retirements after age 70 1/2 currently produce actuarial gains to the affected systems. The age 70 1/2 portion of the bill would reduce these gains. We estimate that the reduction of these gains represents a cost of $6.0 million in PERS 1, $11.6 million in PERS 2/3 and $1.4 million in SERS 2/3 (on a fully projected present value basis).

The opt in/opt out provision of this bill would apply to a small group of members and the associated cost would be insufficient to increase contribution rates in the affected systems.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the required actuarial contribution rate as shown below:

Increase in Contribution Rates: (Effective 9/1/2005)	**PERS**	**TRS**	**SERS**
Employee	0.02%	0.00%	0.02%
Employer	0.03%	0.00%	0.03%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2005-2007				
State:				
General Fund	$0.8	0.0	0.4	$1.2
Non-General Fund	1.3	0.0	0.0	1.3
Total State	**2.1**	**0.0**	**0.4**	**2.5**
Local Government	1.9	0.0	0.4	2.3
Total Employer	4.0	0.0	0.8	4.8
Total Employee	$1.8	0.0	0.2	$2.0
2007-2009				
State:				
General Fund	$1.0	0.0	0.4	$1.4
Non-General Fund	1.6	0.0	0.0	1.6
Total State	**2.6**	**0.0**	**0.4**	**3.0**
Local Government	2.3	0.0	0.4	2.7
Total Employer	4.9	0.0	0.8	5.7
Total Employee	$2.0	0.0	0.2	$2.2

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2005-2030				
State:				
General Fund	$15.5	0.0	4.3	$19.8
Non-General Fund	25.5	0.0	0.0	25.5
Total State	**41.0**	**0.0**	**4.3**	**45.3**
Local Government	36.3	0.0	3.8	40.1
Total Employer	77.3	0.0	8.1	85.4
Total Employee	$28.7	0.0	1.3	$30.0

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Washington Public Employees' Retirement System, he Teachers' Retirement system, and the Washington School Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. The entry age normal cost increase for the bill is 0.01% for PERS Plan 2 members, 0.01% for PERS employers, 0.00% for TRS employers, and 0.00% for SERS employers. The entry age normal cost increase was used to determine the increase in funding expenditures for future new entrants.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

State Patrol Rate Stability

(October 25, 2004)

Issue

Contribution rate stability and the current cost-sharing provision in the Washington State Patrol Retirement System (WSPRS) are issues for the Washington State Patrol Trooper's Association. They have forwarded their proposals to the SCPP in recent correspondence and analysis.

As of the most recent forecast, member contribution rates in the WSPRS are expected to increase from the current 2.00% minimum to 7.97% during the 2007-2009 biennium, and to 8.93% in the 2009-2011 biennium. Historically, the WSPRS member contribution rate was set in statute at 7.00% of salary. When the plan was reformed in 2001, a new funding method and cost-sharing design were incorporated. As a result, member contribution rates will soon exceed the former statutory rate. While the Trooper's Association endorses the concept of rate stability, they are also interested in reformulating the current cost-sharing formula.

Staff

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Members Impacted

As of the 2003 valuation there were 1,079 active members of the WSPRS (1,045 in Plan 1 and 34 in Plan 2).

Current Situation

The Washington State Patrol Retirement System (WSPRS) was originally established in 1947, and in 2001 was the last of the Plan 1 design systems to be reformed. Among the numerous modifications to the system were changes to the funding provisions. In the original plan, member contributions were set at 7.00% in statute with the balance of contributions provided by the employer. The current provisions are a modified cost-sharing design in which members pay half the cost of the plan or 2.00% or pay, whichever is greater.

When the funding provisions were modified, the plan was in fully-funded status and member contributions were 2.00% of pay while employer contributions were 0.00%.

History

From 1995 through 1999, the return on plan assets in the State's retirement funds performed well above the actuarially assumed rate of return. As a result, several plans reached funded ratios significantly above 100%, in essence holding greater assets than there were accrued liabilities. In 1999, the State's contributions were suspended in both the WSPRS and the Law Enforcement Officer's and Fire Fighter's Plan 1 (LEOFF 1) when plan assets exceeded the plan's fully projected benefit liability. In 2000, employee and employer contributions were suspended in LEOFF 1, and employee contributions were lowered to 3% in WSPRS. The 1999 legislature also directed the Joint Committee on Pension Policy (JCPP) to study the method for setting employer and employee contribution rates in the WSPRS during the 2000 interim. During the 2000 interim, JCPP studied and proposed changes to the WSPRS. The JCPP submitted legislation that was enacted in 2001 as Chapter 329. That legislation reformed the WSPRS by:

- Changing the COLA from a simple 2% to a compounded 3% CPI-based adjustment for beneficiaries as well as retirees.
- Changing the employee contribution rate from a fixed 7% to the greater of 2% or the employer rate.
- Excluding prospectively voluntary D.O.T. overtime from the definition of salary.

For new members of the WSPRS commissioned on or after January 1, 2003, the new plan differed from the older plan by:

- Changing from a 2 year to a 5 year Average Final Salary (AFS) for calculating retirement benefits.

- Excluding annual and holiday pay cash-outs from compensation in determining member's AFS.
- Changing military service credit provisions to exclude prior military service and requiring employee contributions for interruptive service.
- Removing the post-retirement death benefit and allowing the member to select an actuarial equivalent benefit option at retirement.
- Changing the pre-retirement death benefit for members not eligible to retire or who have less than ten years of service to a refund of the member's accumulated contributions plus interest. For a member who was eligible to retire or who had at least 10 years of service, the benefit was changed to a reduced accrued benefit or 150 percent of the member's accumulated contributions at the survivor's option.

In addition, the legislation provided that the funding of the plan be done on an "aggregate actuarial cost" method, as done for all other Plan 2's. Prior to this change, the system was funded on an "entry age normal" basis.

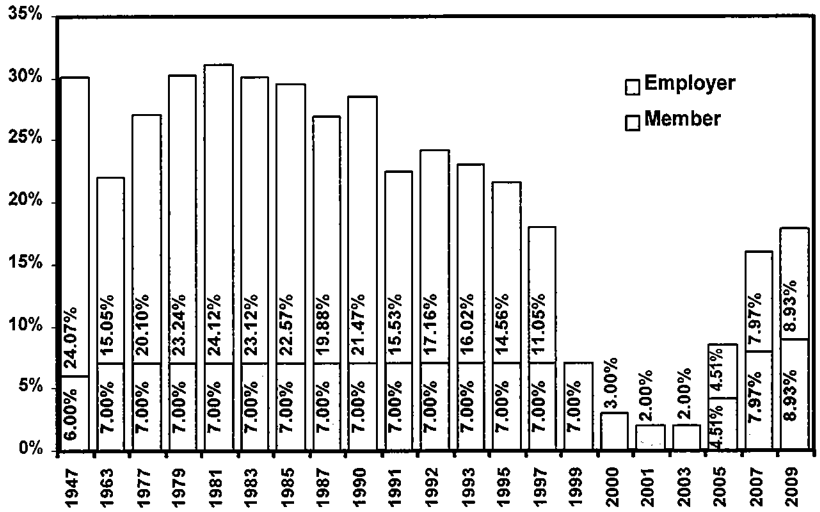
The legislation also attempted to amend the disability provisions in the WSPRS. The existing provisions gave the Chief a principal role in determining disability. And while injured WSPRS members are eligible for Workers Compensation benefits through the Department of Labor and Industries (L&I), disability retirement benefits have been primarily paid from the WSP operating budget rather than the retirement system or L&I. The sections amending the disability provisions were vetoed because of the possible diminishment of benefits in particular situations.

What is also unusual about the changes made to the WSPRS in 2001, and what makes it distinct from the other Plan 2s, is that those changes did not include a typical Plan 2 funding structure. When the other Plan 2s were created (PERS 2, TRS 2, SERS 2, and LEOFF 2), the original plans were closed, and separate funds and funding methods were established. In the WSPRS there are no separate Plan 1 and Plan 2 funds – all contributions are deposited into the same fund. All members, whether Plan 1 or Plan 2, are part of one actuarial experience group, contributions are calculated with no distinction between the plan members, and all members are subject to the same contribution rate.

Contribution Rate History

At its creation in 1947, WSPRS member contributions were set at 6% of pay, and the employer rate was approximately 4 times that (see Figure 1). In 1963, the member rate was fixed at 7% of pay, and employer contribution rates have varied between two and three times the member rate. So while the member contribution rate has historically been very stable, the employer contribution rate has fluctuated significantly.

Figure 1
WSPRS Member and Employer Contribution Rates
Historical 1947-2003 and Forecast 2005-2009

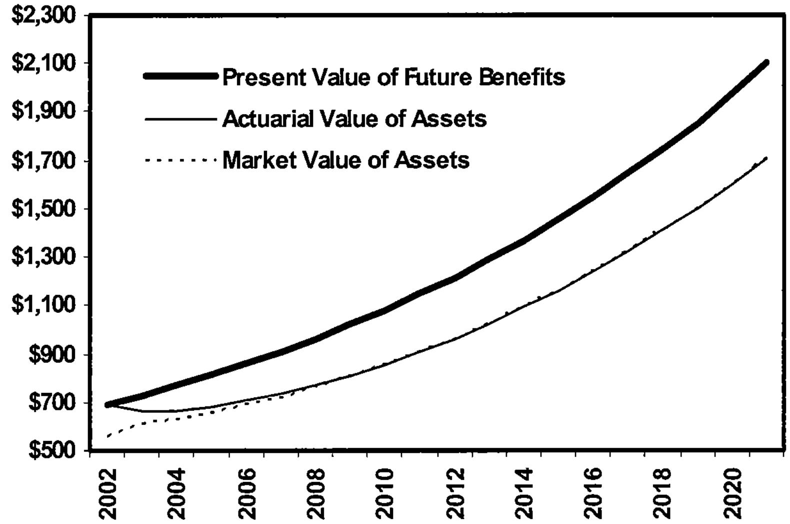


Source: Office of the State Actuary

The funding and contribution rate provisions in the WSPRS have, up to 2001, been similar to those of the other Plan 1s. The plan funding was based on the "entry age normal" method, the member rate was set at a constant percent of salary, and the employer rate was whatever else was required to meet the funding needs of the plan including payments to amortize any unfunded liability. All other Plan 1s – PERS, TRS, and LEOFF – still have statutorily fixed member contribution rates of 6% (the LEOFF 1 member contribution rate is currently 0% as the plan is still fully funded). WSPRS is the only Plan 1 design to change its funding method and change its existing member contribution from a fixed percentage to a cost-sharing percent.

After experiencing a funding ratio of 159% in 1999, the WSP Plan is projected to emerge from full funding in the 2005-2007 biennium. The relatively quick reduction of surplus funds in the WSPRS was not just because of the poor investment markets in 2000 and 2001 but also because the plan is open to new entrants. As new members join, the plan recognizes their liabilities very quickly (see Figure 2), which is then compared with the assets from the single WSPRS fund, including the surplus assets. Contrast this with the surplus funding experience in LEOFF 1: there have been no new members (liabilities) since 1977 and the reduction of surplus funds, as a result, is slower. Member and employer contribution rates in the WSPRS are each expected to surpass 7% in the 2007-2009 biennium.

Figure 2
Projected Assets and Liabilities in WSPRS



Source: Office of the State Actuary

Because of changes in the WSPRS funding method, member and employer contribution rates are expected to move in unison once the total costs reach and surpass 4% of pay. This is somewhat characteristic of a cost-sharing funding method. The principal difference between the WSPRS and other Plan 2s is the 2% minimum member contribution in the WSPRS; minimum member contributions are not found in the other Plan 2s. As a result of the minimum contribution requirement, WSPRS members will, in the long-run, pay more than half the cost of the plan.

Cost-sharing and Plan Value

Because of the varying degrees of funded status, the value of the retirement plans – the benefits provided to members in retirement – and the long-term level of cost-sharing are not necessarily reflected in the current contribution rates. There are several plans that are not fully funded (see Figure 3) and their contribution rates are higher to pay for the plans' unfunded actuarially accrued liability. Other plans are in surplus, and depending on the funding method may have lower contributions, or no contributions. Because of these funding differences current contribution rates do not reflect the long-term value of the plans.

Figure 3
Funded Ratios of Plan 1 Systems and WSPRS 2003

PERS 1	TRS 1	LEOFF 1	WSP
85%	93%	112%	123%

A more appropriate indicator of plan value, or benefit value under a defined benefit plan, is the entry age normal cost of the plan. This prices the plan based on the cost of the benefits and the long-term realization of all actuarial assumptions. In this manner, the contribution rates reflect the demographic characteristics of plan members and the value of the benefits in the plan rather than the short-term gains or losses in plan assets. The normal cost of the various retirement systems and plans are shown in Figure 4.

Figure 4
Entry-Age Normal Contribution Rate and Social Security Contribution by System and Plan: Total Percent of Pay

	Entry Age Normal Cost			Social Security Tax			Entry Age + Soc Sec		
Plan	Member	Employer*	Total	Member	Employer	Total	Member	Employer	Total
PERS 1	6.00%	5.31%	11.31%	6.20%	6.20%	12.40%	12.20%	11.51%	23.71%
PERS2/3	4.46%	4.46%	8.92%	6.20%	6.20%	12.40%	10.66%	10.66%	21.32%
TRS 1	6.00%	7.30%	13.30%	6.20%	6.20%	12.40%	12.20%	13.50%	25.70%
TRS 2/3	5.43%	5.43%	10.86%	6.20%	6.20%	12.40%	11.63%	11.63%	23.26%
SERS	4.71%	4.71%	9.42%	6.20%	6.20%	12.40%	10.91%	10.91%	21.82%
LEOFF 1	6.00%	22.46%	28.46%	0.00%	0.00%	0.00%	6.00%	22.46%	28.46%
LEOFF 2	8.36%	8.36%	16.71%	0.00%	0.00%	0.00%	8.36%	8.36%	16.71%
WSPRS	10.69%	10.69%	21.38%	0.00%	0.00%	0.00%	10.69%	10.69%	21.38%

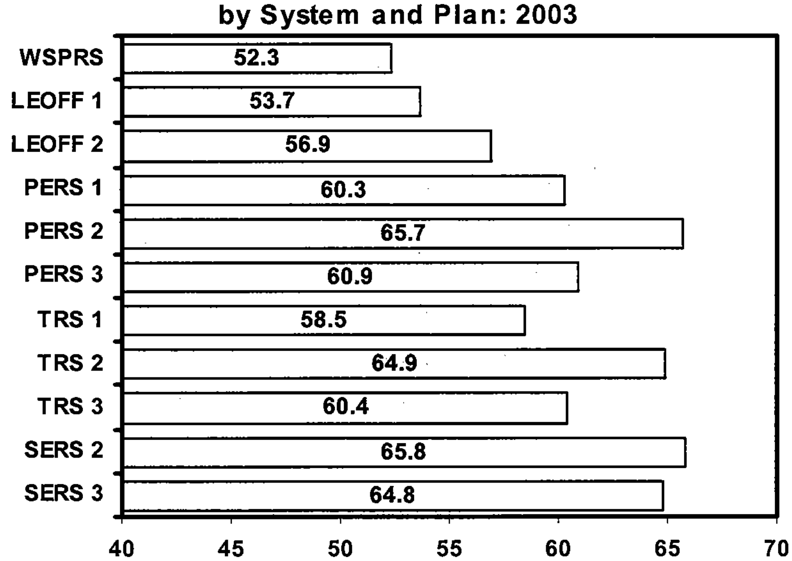
**Does not include contribution rate for Plan 1 UAAL.*

Taking into account both State retirement and Social Security, total contributions to Washington's retirement systems can easily surpass 20% of pay in most plans. The employer commitment to Washington's retirement plans, again summing the normal cost plus any employer contributions to Social Security, can surpass 10% of pay. The total employer contribution in the WSPRS is 10.69% of pay compared to 10.66% on PERS 2/3 and 11.63% in TRS 2/3. The entry age normal cost for the WSPRS is based on the current mix of Plan 1 and Plan 2 members. This rate will decrease as Plan 1 members are replaced by Plan 2 members.

Age Provisions and Plan Value

All Washington's systems and plans have similar benefit formulas (2% of average final compensation × years of service). Such similar provisions will not cause cost differences within the Plan 1s, or within the Plan 2s. The more costly element that will differentiate these systems and plans is the age at which a member is allowed to retire and receive a benefit. The younger the retirement age, the longer a benefit is received, and the costlier the plan. Because of the inherent danger and physical stresses of public-safety occupations, the age and service provisions in WSPRS and the LEOFF Plans allow for full retirement benefits at relatively young ages: at age 50 in LEOFF 1, age 53 in LEOFF 2, and at age 55 or after 25 years of service in WSPRS. Many WSPRS members have become eligible for full benefits before reaching age 50. The average retirement ages in these public-safety plans are reflective of those provisions (see Figure 5) which would make them more costly than the remaining plans.

Figure 5
Average Retirement Age
by System and Plan: 2003



Three-Legged Stool

The "three-legged-stool" pension model is one in which an individual's retirement income is derived from three sources: an employer provided pension, personal savings, and Social Security. Social Security benefits are available to all employee groups who elect to join and make contributions. Those contributions are currently 6.2% of pay, up to $87,000 (indexed) in earnings, for both the employee and employer.

Many public-safety retirement plan members, including WSPRS members, do not pay into the Social Security system. Members of several general public employee retirement plans also do not pay into Social Security, Alaska and Ohio Public Employee's Retirement System being examples. Plans covering employees who do not pay into Social Security tend to have more generous benefits than those where members do make Social Security contributions. This is a tacit acknowledgment that when one leg of the three-legged stool is absent, one of the other legs must be more substantial.

WSPRS members also do not pay into Medicare. PERS, TRS, and SERS members and their employers each pay 1.45% of salary as contributions to Medicare.

> Even if WSPRS members do not pay into Social Security, that does not necessarily mean they won't inevitably receive Social Security benefits. It is understood that by retiring relatively young, not all members will be permanently leaving the work force. Retired WSPRS members will likely be working in some other public or private-sector job until fully retired; one in which they would probably be contributing to Social Security.

Contributions and Funding in Comparative Systems

Contributions among the comparative states will be different because of the differences in benefit design, funding policies, cost-sharing, and the presence of unfunded liabilities. Employer contributions among the comparison states ranged from 0.00% in Washington to 43.54% in Missouri (see Figure 6).

Figure 6
Comparisons of Provisions in Select State Trooper Plans

	Contribution Rates		**Benefit Multiplier:**	**Benefit Requirements**
	Employer	Member	**__% × Years of Service**	**Age / Service**
California	32.65%	8.00%	3.0% (max 90%)	50 / 5
Colorado	12.85%	10.00%	2.5%	50 / 25, 55 / 20, 60-64 / rule of 80, 65 / 5
Florida	22.15%	0.00%	3.0%	55 / 6, Any age / 25
Idaho	10.73%	7.65%	2.3% (max 100%)	50 / Rule of 80
Iowa	17.00%	9.35%	2.75% (max 88%)	55 / 22
Minnesota	12.60%	8.40%	3.0%	55 / 3
Missouri	43.54%	0.00%	1.7%	48 / Rule of 80
Ohio	24.50%	10.00%	2.5% up to 20 years, 2.25% 21 to 25 years, 2.00% per year thereafter (max 79.25%)	48 / 25
Oregon	9.49%	6.00%	2.0%	55 / any service, 50 / 25, Any age / 30
Washington	0.00%	2.00%	2.0% (max 75%)	Any age / 25, 55 / Any service

Florida and Missouri are non-contributory plans.
Iowa employer contribution did not include a payment to the plan's unfunded liability.
Missouri employer contribution rate includes a 29.21% payment for the plan's unfunded liability.
California employer contribution rate includes an 18.13% payment for the plan's unfunded liability.
Missouri members pay into Social Security.

Among these comparative systems, only WSPRS has a 50-50 (as long as the costs exceed 4% of pay) cost-sharing design. Most rely on a statutory contribution by the members and a residual contribution by employers to pay the remaining cost of the plan. Two of the plans, Florida and Missouri, are non-contributory plans, meaning the members make no contributions at all.

Benefit design has a direct bearing on the cost and funding requirements of these plans. The California State Patrol plan recently instituted a 3% per year benefit multiplier which will result in a larger benefit and require greater contributions than the 1.7% multiplier used in Missouri. However, Missouri troopers and their employer, pay into Social Security thus providing a benefit that does not show in this accounting.

Funding methods also add to the difficulties in comparing contribution rates. The current funding method in Washington is the aggregate actuarial cost method in which no unfunded actuarially accrued liability (UAAL) is allowed to accumulate outside the plan's normal cost. All of the comparison States use the "entry age normal" funding method and have varying levels of unfunded liabilities. For instance, in Missouri the great majority of their current employer contributions are to cover the plan's UAAL. Over half of the employer contributions in the California Highway Patrol plan are payment for the plan's unfunded liability. Idaho and Colorado's trooper plans also have unfunded liabilities that add to their employer contribution rates. Iowa's trooper plan also has a significant unfunded liability that could increase their current employer contribution rate by up to 12 percentage points if they chose to fund it. Unfunded liabilities create generational equity issues in that the cost of unfunded pension liabilities of current retirees are passed to future taxpayers.

LEOFF 2 Comparison

The other open public safety related retirement system in Washington State is the Law Enforcement Officers and Fire Fighters retirement system Plan 2 (LEOFF 2). A new Public Safety Employee's Retirement System (PSERS) will open in 2006, but until that time LEOFF 2 will be the point of comparison. Benefit provisions in WSPRS 2 and LEOFF 2 are similar in many ways, particularly in terms of vesting, benefit formula, and COLAs. Where the WSPRS differs is in the provision allowing a member with 25 years of service to retire with an unreduced benefit. This is characteristic of the service-based criteria found in the Plan 1 designs and still found in WSPRS 2. This is more costly than the age and service provision in LEOFF 2.

As with all the Plans 2, the WSPRS and LEOFF 2 are similar in that they both use the "aggregate actuarial cost" funding method (see Figure 7). This method reacts quickly to changes in asset returns, and does not allow the accumulation of an unfunded liability outside the plan's normal cost.

Figure 7
Funding Provisions in WSPRS 2 and LEOFF 2

	WSPRS 2	LEOFF 2
Funding Method	Aggregate Actuarial Cost	
Member Contributions	2% or half the cost of the benefits, whichever is greater.	Half the cost of member benefits
Employer Contributions	(The State is the employer)	30% of the cost of members benefits
State Contributions	Half the cost of members benefits unless total costs are under 4%.	20% of the cost of members benefits

Besides the minimum member contribution in WSPRS, the principal difference in funding policy between the plans is how the employer costs are divided in LEOFF 2. The state is the employer for WSPRS members and pays half the cost of the retirement plan benefits, as long as the costs exceed 4% of pay. While the State is not the employer in LEOFF 2, it still pays 20% of the cost of the benefits, while the actual local government employer pays 30% of the cost of the benefits. A State contribution for those who are local government employees is not found in the other Washington systems and plans; it is likely a design borne of the significant state contributions to the original LEOFF 1 Plan.

Proposed Cost-sharing Formula

The Trooper's association has proposed reworking the cost-sharing formula. The current 50-50 split with a 2.00% member minimum would be changed to ⅓ member, ⅔ employer, with the member rate capped at 7%. Historically the plan required 7.00% of pay from the members with the State liable for the remaining costs. This resulted in members paying, on average, about one-third of the plan's costs and the employer (the State) paying about two-thirds.

In a second proposal, the Trooper's Association has also requested a phase-in period before the ⅓ - ⅔ formula takes effect. Because their employer has been making no contributions since 1999, they feel their employer should make even larger contributions than are generated in the ⅓ - ⅔ formula. They propose that over the next 3 biennia, members would pay 20% of the cost of the plan, with a 2.0% minimum member contribution rate, and their employer would pay the remaining cost of the plan.

Fiscal Impact

Fiscal analysis of this proposed cost-sharing formula show the member contribution rate in the 2005-2007 biennium declining by 1.5% and the employer rate increasing by 1.5%. This would result in an additional $2.4 million in State contributions to the WSPRS during the 2005-2007 biennium. With a long-term expected normal cost of 21.38%, the current 50-50 cost-sharing would result in member rates and employer rates each trending to 10.69%. Under the ⅓ - ⅔, 7% cap proposal, the member rate would reach a maximum of 7% while the employer rate would trend to 14.39%. The 25-year cost to the State would be $123 million. Under the phase-in proposal, the member contribution rate would fall by 2.51% and the employer contribution rate would increase by 2.51% in the 2005-2007 biennium. This would result in an additional $4.0 million in employer contributions in the first two years. The 25-year cost to the state would be $133.4 million.

Policy Analysis

The policy questions in regards to the WSPRS contribution rate stability issue is whether the plan adheres to the cost-sharing policies outlined for the Plan 2s, whether the current volatile contribution rates are in conflict with existing funding policy, and whether the proposed contribution formula, with the 7% cap, is in keeping with current policy.

Cost-sharing

One of the implicit policies formulated by the Joint Committee on Pension Policy states that "... costs should be shared equally between employees and employers."

When the total funding requirements of the WSPRS are 4% of salary or greater, there is equal cost-sharing. If, as has been the case over the past several years, the plan is fully funded and requires no contributions, then members pay the only contributions to the plan. Since members make contributions when none are necessary but the employer does not, the members will, in the long-run, not share equally in the costs of the plan. The proposed ⅓ - ⅔ cost-sharing formula would be consistent with past practices for the WSPRS but inconsistent with current cost-sharing policies of the Plan 2 systems. The prospect of member contribution rates climbing over 7.00% may also raise a Bakenhus issue for existing Plan 1 members. Existing members never paid contributions above 7.00% of pay. The Bakenhus decision does allow for changes in retirement plan provisions as long as the trade-offs are of equivalent value. In the reform of the State Patrol Plan in 2001, existing members and their beneficiaries received a benefit increase in the form of a 3% CPI-based COLA for retirees and survivors; retirees formerly had a 2% simple COLA, and only in 2000 were survivors eligible to receive a 2% simple COLA. Existing members also received more flexibility in providing survivor benefits for their beneficiaries. Though not a permanent benefit, members also received a short term decline in their contribution rate.

Rate Volatility

Within the Finding Chapter (RCW 41.45) is the policy goal to "establish predictable long-term employer contribution rates which will remain a relatively constant proportion of the future state budgets."

The projected increases in employer and member contribution rates have brought this policy to the forefront in current retirement discussions. The volatility of the contribution rates, both during the recent past and over the next several biennia, is in conflict with this existing funding policy. Legislation has been enacted in the past two sessions to address this volatility, and is expected to smooth out any such future fluctuations (Chapter 11 laws of 2003 extended session, and chapter 93 laws of 2004.)

Rate predictability and stability is an issue impacting all systems and plans, including the WSPRS. In response to this volatility the funding report of the State Actuary, heard by the SCPP in July of this year, included a recommendation to establish minimum Plan 2/3 contribution rates based on a combination of entry age and aggregate methods. The report also recommended that the rate charged employers to fund the Plan 1 unfunded liability not be allowed to decrease until the plans were at a funded ratio of 125%. These recommendations seek to add a greater degree of predictability and stability to the funding of the retirement plans in keeping with existing policies.

In addition, the SCPP Pension Funding Council Subgroup proposed a phase-in of the projected rates increases over the next 3 biennia. While this would incur additional costs to the plans, it would observe the policy of predictability.

Policy Conclusion

Two particular elements within the WSPRS design have policy implications. The presence of a minimum contribution rate for members results in an imbalanced cost-sharing relationship. Without an equivalent minimum contribution rate for the employer, members will not share equally with the State in the cost of the plan. The proposed ⅓ - ⅔ contribution formula with a 7% member cap may be in keeping with historical Plan 1 policy, but would be establishing new policy within the Plan 2 systems. The other policy element relates to the stability of the contribution rates; by using the aggregate method to fund the plans, benefits are fully paid over the working lives of the members and no unfunded liability is allowed to accrue outside the plan's normal cost. This does result in rate volatility which may be in conflict with existing funding policy. However, recent legislation has set in place new smoothing methods and asset corridor measures to address this volatility. Furthermore, additional funding recommendations are before the SCPP this interim which also apply to the WSPRS.

Executive Committee Recommendation

Forward two proposals to the full committee for a public hearing.

Bill Drafts

First Bill: Members pay ⅓ of the cost of the plan, with a maximum member contribution rate of 7.0%, and the employer pays the remaining cost of the plan.

Second Bill: During the first 3 biennia members pay 20% of the cost of the plan, with a 2% minimum member contribution rate, and the employer pays the remaining cost of the plan. After 3 biennia, members pay ⅓ of the cost of the plan, with a maximum member contribution rate of 7.0%, and the employer pays the remaining cost of the plan.

Fiscal Notes

Attached

Administrative Impact

See attached letter from John Charles, Director of Department of Retirement Systems.

Stakeholder Input

Robert Thurston, President
Washington State Troopers Association
See attached correspondence

STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS
PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 28, 2004

RECEIVED
OCT 2 8 2004
Office of
The State Actuary

The Honorable Karen Fraser, Chair
The Honorable Steve Conway, Vice-Chair
Select Committee on Pension Policy
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Senator Fraser and Representative Conway:

Subject: Washington State Patrol Rate Stability

At the October 19, 2004 Select Committee on Pension Policy (SCPP) meeting, the Department of Retirement Systems (DRS) was asked to provide administrative input on the issue of rate stability in the Washington State Patrol Retirement System (WSPRS). There are three administrative areas of the WSPRS that are important to note: the funding structure of the plan, the accounting of the contributions, and the reporting of the assets in the Department's Comprehensive Annual Financial Report (CAFR).

Funding

As explained in the report to the SCPP, the funding of the plan had historically been a 1/3 – 2/3 split between member and employer, with a 7 percent maximum member contribution. In the 2001 legislation creating Plan 2 and providing for an enhanced cost of living allowance for retirees, that funding was changed to an employee contribution equal to the greater of 2 percent or the employer rate. However, unlike any other Washington State retirement system with multiple plans, the funding of the benefits for each plan was not separated, even though the benefit structure for Plan 1 and Plan 2 is significantly different. Currently, members of both plans pay the same contribution rate, and all benefits are paid from the same fund.

Accounting

When implementing this 2001 legislation, DRS decided to account for the contributions from each plan separately. While the contributions are invested and benefits are paid from one fund per statutory requirement, the Department accounts for them separately to ensure clear records and provide for historical data regarding the contributions received by members of each plan. This practice would allow the Department to easily account for separate Plan 1 and Plan 2 funds should this be necessary in the future.

Reporting
In determining how to report WSPRS Plan 1 and Plan 2 under one fund in the department's and the state's Comprehensive Annual Financial Reports, and in the State Investment Board's Annual Report, we worked with staff from the Office of the State Actuary, the State Investment Board, and the Office of Financial Management, to reach agreement on the appropriate way to accurately represent WSPRS. We agreed that descriptions of the benefit structure and demographic data should be represented for each plan within the system but that all data showing contributions, assets, and liabilities would be represented only at the system level, with footnotes explaining that this includes both Plan 1 and Plan 2. You will see this reporting structure in the 2004 CAFR, published in December.

The issue before the Select Committee on rate stability is complex but the decisions and practices of the Department, when implementing the 2001 legislation, should allow for ease of administration if changes to WSPRS funding policy are made. Please contact me at 664-7312 if you have any further questions.

Sincerely,

John F. Charles
Director

WASHINGTON STATE PATROL TROOPERS ASSOCIATION
200 UNION AVE. SE STE. 200, OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

September 9, 2004

COPY

RECEIVED
SEP 13 2004
Office of
The State Actuary

Senator Karen Fraser
P.O. Box 40422
Olympia, WA 98504-0422

Re: WSPRS Contribution Rate Stability

Dear Senator Fraser:

Thank you for taking the time to meet with Rick Jensen and Paul Neal to contribution rate stabilization. We share your concerns, and appreciate your leadership, in this area. All of the systems have seen wide swings in rates in the last six years, but those fluctuations have been most dramatic in the Washington State Patrol Retirement System (WSPRS).

The current contribution rate stabilization recommendation put forward by the State Actuary would require an amendment to the statutes governing contribution rates for the WSPRS. We ask that those amendments incorporate our proposal.

We are proposing a WSPRS contribution formula that is consistent with the statutory history and past practice of the Legislature and the Pension Funding Council:

- 7% cap on member contributions;
- 1/3 – 2/3 member to employer contribution ratio effective July 1, 2005.

I am enclosing a copy of our briefing paper on the issue. I would appreciate it if you could give the Trooper's association fifteen to twenty minutes on the October SCPP agenda to present this issue to the full committee.

We are also concerned about retiree health insurance. There are a number of optional plans authorized by the federal tax code. There also appears to be a lot of confusion about what those plans are and how they work. Please consider making the study and discussion of this issue a top priority for the SCPP's work during the 2005 interim.

Thank you for your consideration.

Sincerely,

Robert Thurston, President
Washington State Trooper's Association

cc: Matt Smith

Contribution Rate Stability
For Trooper Retirement

October 4, 2004

The Trooper's association shares the SCPP's concern for contribution rate stability. We support the idea of working towards a minimum contribution rate that will guard against the wild swings we are currently experiencing. Under the Actuary's current recommendation, those minimum contribution rates would be equal for employers and employees. The unique history of Trooper retirement requires a modified application.

How We Got Here

Up until 2001, the Troopers paid a statutorily fixed 7% contribution rate. Historically, Troopers have paid one-third of the system cost and the State has paid two-thirds[i].

In 1999 the State's contribution to WSPRS dropped to 0.00%, where it has stayed ever since. In 2001 the Legislature changed the funding formula[ii] greatly reducing the State's obligation. Instead of picking up two-thirds of the cost, the State changed its maximum obligation to one-half. Troopers were required to pick up the slack.

<u>Since 1999 the State has paid nothing while the Troopers have continued to pay.</u> Beginning in 2005, the system cost will exceed 4% of salary[iii]. At that point the Troopers and the State will each be sharing half of the total cost. Beginning in 2007, Trooper contributions will exceed 7%.

Where We Are

Washington State Troopers appear to get better retirement benefits than other State employees. In reality, the State's current funding commitment to Trooper's retirement is much less. The State makes Social Security Contributions for all its employees - except Troopers.

Current employer retirement contribution policy:

	Employer Pension Contribution Policy	**10 year average annual employer contributions**
Troopers (WSPRS)	(A) One-half of actuarial cost of WSPRS[iv];	5.12% of salary
All Other State Employees (PERS 2 plus Social Security)	(A) One-half of actuarial costs of PERS[v]; PLUS (B) 7.65% of salary for social security and medicare	12.03% of salary

Prepared by
Washington State Patrol Troopers Association
October 18, 2004

Prior to 1999, the level of State retirement contributions for Troopers was equivalent to contributions for other State employees. The State didn't contribute to Social Security for Troopers, but it spent more on WSPRS than on PERS. That made sense. In 2001, that one-third/two-thirds contribution ratio was replaced with a ratio of fifty/fifty. By 2007 Trooper contribution rates will exceed the contractually fixed 7% level.

Contribution Rate Stability for Troopers

Raising Trooper contribution rates above 7% violates constitutionally protected Trooper pension rights. Restoring the 7% cap and keeping the cost sharing at 50-50 will not provide adequate funding. The Trooper's propose:

- Trooper contribution rates capped at 7% - one-third of the current 21% normal cost.
- Long-term contribution ratio of 1/3 - 2/3. Adopt same floor as other plans but with 1/3 – 2/3 cost division. This reinstates the old formula and recognizes the lack of employer social security contributions.
- Restore equilibrium with 80-20 phase in. Three bienniums of the State paying less than its share should be offset with three bienniums of the State paying more. As rates go up for the next three biennia, the State should pay 80% of the cost while the Troopers pay 20% of the cost.

Notes

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i 15.1 % Average annual employer contribution to WSPRS since 1963 (7% employee contribution). 13.74% Average annual employer contributions for other state employees.

ii. RCW 41.45.0631 (Ch. 329, Laws of 2001) enacted the following formula:
- Troopers pay 2% of salary or one-half of retirement cost, whichever is greater;
- State pays:
  - Less than Troopers if total cost of system is less than 4%; or
  - One-half of retirement cost if total cost exceeds 4%.

iii. Projected WSPRS contribution rates from the OSA website:

	2003-05	2005-07	2007-09	2009-11
Troopers	2.00%	4.22%	7.97%	8.93%
Employer	0.00%	4.22%	7.97%	8.93%

iv. RCW 41.45.0631; the state makes a Medicare contribution of 1.45% for Troopers employed after July 1, 1986.

v. RCW 41.45.061

Prepared by
Washington State Patrol Troopers Association
October 18, 2004

Transfers from State Patrol Highway Account to Motor Vehicle Fund

Biennium	Biennial Transfer	Total Transfer
2001-03	$48,657,000[1]	$48,657,000
2003-05	$20,000,000[2]	$68,657,000
2005-07	$20,000,000[3]	$88,657,000
2007-09	$25,000,000	$113,657,000
2009-11	$5,000,000	$118,657,000
2011- 13	$15,000,000	$133,657,000
2013 - 15	$15,000,000	$148,657,000

Discontinuance of the transfer will provide more than enough funding for the Trooper pension contribution proposal.

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[1]ch. 14, sec.406, laws of 2001 as amended by sec 404, ch. 359, laws of 2002.

[2] ch. 360, sec. 405, laws of 2003

[3]Projected transfers taken from DOT ten-year transportation budget plan submitted to Governor's office with 2005-07 DOT budget.

Prepared by
Washington State Trooper's Association
October 18, 2004

#1

AN ACT Relating to member contribution rates in the Washington state patrol retirement system; amending RCW 41.45.0631; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.45.0631 and 2001 c 329 s 11 are each amended to read as follows:

Beginning July 1, ((~~2001~~)) 2005, the required contribution rate for members of the Washington state patrol retirement system shall be ((~~two~~)) seven percent or ((~~equal to~~)) one-third of the ((~~employer~~)) rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is ((~~greater~~)) less. In no event shall the member contribution rate be less than two percent.

NEW SECTION. **Sec. 2.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2005.

--- END ---

#1

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**10/27/2004**	**Z-0190.2/Z-0191.2**

SUMMARY OF BILL:

This bill impacts the Washington State Patrol Retirement System by changing the contribution rate setting formula. The bill would establish member contribution rates at 1/3 of the total cost of the system, or 7 percent, whichever is less. However, in no event will the member rate be less than 2 percent. The employer would then be responsible for paying the remaining costs of the system.

Effective Date: July 1, 2005

CURRENT SITUATION:

Currently the member contribution rate in the Washington State Patrol Retirement System is set at half the cost of the system or 2 percent, whichever is greater. The employer is then responsible for the remaining costs of the system. Because of the funding status of the system, member contribution rates have been 2 percent since 2001, and there have been no employer contributions.

MEMBERS IMPACTED:

All 1,079 active members of this system would be affected by this bill.

For members impacted by this bill, there would be no increase in benefits, but there would be a decrease in member contributions.

ASSUMPTIONS:

The 1/3 member, 2/3 employer split would apply for all years beginning July 1, 2005. The rates are rounded to two decimal places after multiplying the total rate by 1/3 and 2/3 (for example, the total rate of 9.02% would be split with 3.01% for the member and 6.01% for the employer).

FISCAL IMPACT:

Description:

This would not change the liabilities of the current plan. It would shift 1/6 of the total contributions from members to employers. It would also change the cost allocation of any future benefit improvements so that the members would only be paying for 1/3 instead of 1/2, and the employer would be responsible for 2/3 of the cost instead of 1/2.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

	System: Washington State Patrol (WSP)		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$727	$0	$727
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$0	$0	$0
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($124)	$0	($124)

Increase in Contribution Rates: (Effective 7/1/2005)

Employee	(1.50%)
Employer State	1.50%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	WSP
2005-2007	
State:	
General Fund	$0.1
Non-General Fund	2.3
Total State	**$2.4**
Local Government	$0.0
Total Employer	$2.4
Total Employee	($2.4)
2007-2009	
State:	
General Fund	$0.3
Non-General Fund	4.5
Total State	**$4.8**
Local Government	$0.0
Total Employer	$4.8
Total Employee	($4.8)
2005-2030	
State:	
General Fund	$7.4
Non-General Fund	115.9
Total State	**$123.3**
Local Government	$0.0
Total Employer	$123.3
Total Employee	($123.3)

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Washington State Patrol Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

#2

AN ACT Relating to member contribution rates in the Washington state patrol retirement system; amending RCW 41.45.0631 and 41.45.0631; providing effective dates; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.45.0631 and 2001 c 329 s 11 are each amended to read as follows:

Beginning July 1, ((~~2001~~)) <u>2005</u>, the required contribution rate for members of the Washington state patrol retirement system shall be two percent or ((~~equal to~~)) <u>one-fifth of</u> the ((~~employer~~)) rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is greater. <u>In no event shall the member contribution rate exceed seven percent.</u>

<u>NEW SECTION.</u> **Sec. 2.** Section 1 of this act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2005.

Sec. 3. RCW 41.45.0631 and 2005 c . . . s 1 (section 1 of this act) are each amended to read as follows:

Beginning July 1, ((~~2005~~)) 2011, the required contribution rate for members of the Washington state patrol retirement system shall be ((~~two~~)) seven percent or ((~~one-fifth~~)) one-third of the rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is ((~~greater~~)) less. In no event shall the member contribution rate ((~~exceed seven~~)) be less than two percent.

NEW SECTION. **Sec. 4.** Section 3 of this act takes effect July 1, 2011.

--- **END** ---

#2

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**10/28/2004**	**Z-0206.2/Z-0207.2**

SUMMARY OF BILL:

This bill impacts the Washington State Patrol Retirement System by changing the contribution rate setting formula. Through June 30, 2011, member contribution rates would be 20 percent of the total cost of the system, or 2 percent, whichever is greater; the employer would then be responsible for paying the remaining costs of the system. Beginning July 1, 2011, member contribution rates would be 1/3 of the total cost of the system, or 7 percent, whichever is less; the employer would then be responsible for paying the remaining costs of the system. In no event would the member rate be less than 2 percent.

Effective Date: July 1, 2005

CURRENT SITUATION:

Currently the member contribution rate in the Washington State Patrol Retirement System is set at half the cost of the system or 2 percent, whichever is greater. The employer is then responsible for the remaining costs of the system. Because of the funding status of the system, member contribution rates have been 2 percent since 2001, and there have been no employer contributions.

MEMBERS IMPACTED:

All 1,079 active members of this system would be affected by this bill.

For members impacted by this bill, there would be no increase in benefits, but there would be a decrease in member contributions.

ASSUMPTIONS:

The 20% member, 80% employer split would apply for 6 years beginning July 1, 2005, and the 1/3 member, 2/3 employer split would apply for all years beginning July 1, 2011. The rates are rounded to two decimal places after multiplying the total rate by 20% and 80% or 1/3 and 2/3 (for example, a total rate of 19.54% after July 1, 2011 would be split with 6.51% for the member and 13.03% for the employer).

FISCAL IMPACT:

Description:

This would not change the liabilities of the current plan. It would shift about 30% of the total contributions from members to employers for the first 6 years and 1/6 of the total contributions from members to employers after that. It would also change the cost allocation of any future benefit improvement. As a result, in the first 6 years members would pay for about 20% instead of 1/2, and the employer would be responsible for about 80% of the cost instead of 1/2. After first 6 years, the members would pay for 1/3 instead of 1/2, and the employer would be responsible for 2/3 of the cost instead of 1/2.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

	System: Washington State Patrol (WSP)		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$727	$0	$727
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$0	$0	$0
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($124)	$0	($124)

Increase in Contribution Rates: (Effective 7/1/2005)	
Employee	(2.51%)
Employer State	2.51%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**WSP**
2005-2007	
State:	
General Fund	$0.2
Non-General Fund	3.8
Total State	**$4.0**
Local Government	$0.0
Total Employer	$4.0
Total Employee	($4.0)
2007-2009	
State:	
General Fund	$0.5
Non-General Fund	8.0
Total State	**$8.5**
Local Government	$0.0
Total Employer	$8.5
Total Employee	($8.5)
2005-2030	
State:	
General Fund	$8.0
Non-General Fund	125.4
Total State	**$133.4**
Local Government	$0.0
Total Employer	$133.4
Total Employee	($133.4)

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Washington State Patrol Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Select Committee on Pension Policy

LEOFF 1 Survivor Benefits

(October 27, 2004)

Proposal

Allow a LEOFF 1 member to designate a spouse from a post-retirement marriage as a beneficiary even if there is a qualified ex-spouse receiving a portion of the member's retirement benefit under a court approved property settlement.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237

Members Impacted

As of the 2003 valuation, there were 991 active members, 6,870 retirees, and 1,184 survivors in LEOFF 1.

Current Situation

Members who marry after retirement may designate their new spouse as a beneficiary during a one-year window that begins one year after the date of marriage. To make such a designation, there may not be a qualified ex-spouse receiving a portion of the member's retirement benefit under a court approved property settlement. To receive this benefit the member's allowance is actuarially reduced.

History

HB 3173 was introduced in the 2004 legislative session. It would have allowed a spouse from a post-retirement marriage to receive survivor benefits even though there was a qualified ex-spouse already receiving benefits. The bill did not receive a hearing.

Policy Analysis

Implicit retirement policies outlined by the former Joint Committee on Pension Policy state that "Pension benefits should meet the needs of employees, retirees, and employers within available resources," and "Retirees should have more flexibility in determining the form and timing of their benefit." The provisions allowing ex-spouses and spouses from post-retirement marriages to receive survivor benefits are based on these policies. Any expansion of eligibility for multiple survivors to receive fractional benefits would be in keeping with these policies.

Executive Committee Recommendation

Forward the bill to the full committee for consideration.

Bill (Draft)

Attached

Administrative Impact

DRS fiscal note attached

Fiscal Note (Draft)

Attached

AN ACT Relating to choosing a reduced retirement allowance under the law enforcement officers' and fire fighters' retirement system, plan 1; amending RCW 41.26.164; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.164 and 2002 c 158 s 4 are each amended to read as follows:

(1) No later than July 1, ((~~2003~~)) 2005, the department shall adopt rules to allow a member who meets the criteria set forth in subsection (2) of this section to choose an actuarially equivalent benefit that pays the member a reduced retirement allowance and upon death, such portion of the member's reduced retirement allowance as the department by rule designates shall be continued throughout the life of a spouse ineligible for survivor benefits under RCW 41.26.160 or 41.26.161.

(2) To choose an actuarially equivalent benefit according to subsection (1) of this section, a member shall:

(a) Have a portion of the retirement allowance payable to the retiree that is not subject to periodic payments pursuant to a property division obligation as provided for in RCW 41.50.670;

(b) Have no qualified ex spouse under RCW 41.26.162(1); and

(c) Choose an actuarially reduced benefit during a one-year period beginning one year after the date of marriage to the survivor benefit-ineligible spouse.

(3) A member who married a spouse ineligible for survivor benefits under RCW 41.26.160 or 41.26.161 prior to the effective date of the rules adopted under this section and satisfies the conditions of subsection (2)(a) and (b) of this section has one year to designate their spouse as a survivor beneficiary following the adoption of the rules.

(4) No benefit provided to a child survivor beneficiary under RCW 41.26.160 or 41.26.161 is affected or reduced by the member's selection of the actuarially reduced spousal survivor benefit provided by this section.

(5)(a) Any member who chose to receive a reduced retirement allowance under subsection (1) of this section is entitled to receive a retirement allowance adjusted in accordance with (b) of this subsection if:

(i) The retiree's survivor spouse designated in subsection (1) of this section predeceases the retiree; and

(ii) The retiree provides to the department proper proof of the designated beneficiary's death.

(b) The retirement allowance payable to the retiree from the beginning of the month following the date of the ((~~beneficiaries~~ ~~[beneficiary's]~~)) <u>beneficiary's</u> death shall be increased by the following:

(i) One hundred percent multiplied by the result of (b)(ii) of this subsection converted to a percent;

(ii) Subtract one from the reciprocal of the appropriate joint and survivor option factor.

<u>NEW SECTION.</u> **Sec. 2.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**10/27/04**	**Z-0200.1/Z-0201.1**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1. It amends the plan provision relating to survivor benefits under RCW 41.26.164, which provides an optional reduced retirement allowance with survivor benefits to spouses that are ineligible for survivor benefits under other plan provisions. The bill changes one of the criteria for allowing a member to choose this retirement option. Under this legislation, the member could select the option as long as there is some portion of his or her retirement benefit that is not subject to a property division pursuant to a domestic relations order. Currently, any division would defeat the member's ability to select this option.

Effective Date: Immediately upon passage.

CURRENT SITUATION:

Currently a member desiring to choose this option shall "have the retirement allowance payable to the retiree not subject to periodic payments pursuant to a property division obligation as provided for in RCW 41.50.670." This language is broad enough to suggest that the presence of any such division would defeat the member's ability to choose this option. With the new language, the member could choose this option so long as there is a portion of the retirement allowance that is not subject to division.

MEMBERS IMPACTED:

This bill would impact LEOFF 1 members who have or will have a domestic relations order that applies to their benefit. We estimate that this bill could potentially affect all members of the LEOFF 1 system.

ASSUMPTIONS:

We assume that the value of the reduced benefit under this option will be actuarially equivalent to the unreduced benefit.

FISCAL IMPACT:

None.

Individual State Agency Fiscal Note

Bill Number: 3173 HB	Title: LEOFFRS/reduced retirement	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.4	0.0	0.2	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	77,516	0	77,516	0	0
Total $	77,516	0	77,516	0	0

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/03/2004
Agency Preparation:	Dorothy Bailey	Phone: (360) 664-7069	Date: 02/03/2004
Agency Approval:	John Charles	Phone:	Date: 02/06/2004
OFM Review:	Doug Jenkins	Phone: 360-902-0563	Date: 02/06/2004

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Currently if a Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 1 member has a court-approved property settlement agreement that awarded a portion of the member's retirement benefit to an ex-spouse, the member cannot designate a survivor benefit for a new spouse if the marriage was after retirement. This legislation will allow that option upon meeting defined criteria.

This bill is effective July 1, 2004.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.4	0.00	0.2		
A-Salaries and Wages	14.940		14,940		
B-Employee Benefits	3.436		3,436		
C-Personal Service Contracts					
E-Goods and Services	59.140		59,140		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$77,516	$0	$77,516	$0	$0

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2004	FY 2005	2003-05	2005-07	2007-09
Public Info Officer 2	45,816	0.0		0.0		
Retirement Svcs Analyst 3	42,588	0.3		0.2		
Retirement Svcs Analyst 4	45,816					
Total FTE's		0.4		0.2		0.0

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Rules are needed to specify the option choices.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Administrative Assumptions

- The survivor option will apply to service and disability retirees.
- The survivor options that may be selected are:
  - Option 2 – joint and 100% survivorship
  - Option 3 – joint and 50% survivorship
  - Option 4 – joint and 66.67% survivorship
- The retiree must not have a qualifying ex-spouse under RCW 41.26.162(1), that:
  - Has a court order entered after retirement and before December 31, 1979,
  - Was married to the member at least 30 years, including;
  - Was married at least 20 years prior to the member's retirement or separation from service.
- A retiree who married prior to July 1, 2004, has until June 30, 2005 to choose the reduced benefit for the spouse.
- A retiree who marries on or after July 1, 2004, must make the election within one year after the first anniversary of the marriage.
- Upon the death of the member, the portion of the member's reduced retirement allowance under RCW 41.26.164 will continue to be paid throughout the life of the spouse ineligible for survivor benefits under RCW 41.26.160 or 41.26.161 based on the benefit selected by the member.
- The benefit provided to a surviving child is not affected by the member's choice of the spousal survivor option.

Benefits Unit

DRS estimates there are 161 retirees with property division orders who may be eligible to choose this new spousal survivor benefit. We anticipate telephone calls regarding the survivor benefit and requests for benefit estimates to reflect the reduced amount. Staff time is needed to recalculate benefits, create and update rules, identify business requirements, participate in user acceptance testing and train RSD staff.

- Manage telephone calls
- Prepare benefit estimates
- Define business requirements for the automated systems
- Conduct user acceptance testing of automated system modifications
- Update the Retirement Services Division (RSD) Online Operations Manual
- Conduct staff training
- Update policies and procedures

Retirement Services Analyst 3 – 685 hours (salaries/benefits)	$17,189
Total Estimated Benefits Unit Costs	**$17,189**

Member/Retiree Communications

All LEOFF Plan 1 members will receive notification of the new benefit. A letter will be developed and mailed to all retirees, while active members will receive notification via standard agency communications. The web versions of the LEOFF Plan 1 Member Handbook and the "How Can a Property Division Affect my Retirement Account?" brochure will be updated to reflect the new legislation. Updates to the paper versions will be completed during their normal printing cycle. Retirement seminars and pension workshop materials will also be updated to provide the new information.

Postage and envelops for retiree letter (8,100 letters)	$3,240
Public Information Officer 2 – 40 hours (salaries/benefits)	$1,080
Retirement Services Analyst 4 – 4 hours (salaries/benefits)	$107
Total Estimated Member/Retiree Communications Costs	**$4,427**

Automated Systems

The Department of Retirement Systems' automated systems will require modifications to the flexible survivor modules to allow LEOFF Plan 1 retirees to choose a reduced retirement allowance.

Programmer time of 520 hours @ $95 per hour	$49,400
DIS cost* of $500 per week for 13 weeks	$6,500
Total Estimated Automated Systems Costs	**$55,900**

**cost for mainframe computer processing time and resources at the Department of Information Services*

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	2003-05	2005-07	2007-09
BENEFITS UNIT	$17,189	$0	$0
MEMBER COMMUNICATIONS	$4,427	$0	$0
AUTOMATED SYSTEMS	$55,900	$0	$0
ESTIMATED TOTAL COSTS	$77,516	$0	$0

LEOFF 1 Disability Boards

(October 27, 2004)

Proposal

Clarify the qualifications of active or retired LEOFF members eligible to serve on county disability boards and the LEOFF 1 members who are eligible to vote for those board members. And if there are either no LEOFF 1 fire fighters or law enforcement officers qualified to vote, the remaining eligible law enforcement officers or fire fighters will elect a second board member.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237

Members Impacted

As of the 2003 valuation, there were 991 active members, 6,870 retirees, and 1,184 survivors in LEOFF 1.

Current Situation

Each city with a population of 20,000 or more has a LEOFF 1 disability board comprised of:

- 2 members of the city legislative body
- 1 active or retired fire fighter
- 1 active or retired law enforcement officer
- 1 member from the public at large.

Each county has a LEOFF 1 disability board for those members not covered by a city disability board. Each county disability board is comprised of:

- 1 member of the county legislative body
- 1 member of a city or town legislative body (under 20,000 population.)
- 1 active or retired fire fighter
- 1 active or retired law enforcement officer
- 1 member from the public at large.

History

Companion bills HB 3114 and SB 6355 were introduced in the 2004 legislative session. The bills would have clarified the qualifications of the active or retired LEOFF members eligible to serve on the county disability board and the LEOFF 1 members eligible to vote for those board members. The bills also provided that if there were either no LEOFF 1 fire fighters or law enforcement officers eligible to vote, the remaining eligible law enforcement officers or fire fighters would elect a second board member. Neither bill was forwarded from its respective fiscal committee.

Policy Analysis

Each LEOFF 1 disability board is required to have two LEOFF members - they do not have to be LEOFF 1 members. This legislation does not establish any new policies in regards to that membership but merely fine-tunes the disability board membership provisions in light of the declining number of eligible LEOFF 1 voting members.

Executive Committee Recommendation

Forward the bill to the full committee for consideration.

Bill (Draft)

Attached

Fiscal Note (Draft)

Attached

AN ACT Relating to city and county disability boards; amending RCW 41.26.110; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.110 and 2003 c 30 s 3 are each amended to read as follows:

(1) All claims for disability shall be acted upon and either approved or disapproved by either type of disability board authorized to be created in this section.

(a) Each city having a population of twenty thousand or more shall establish a disability board having jurisdiction over all members employed by those cities and composed of the following five members: Two members of the city legislative body to be appointed by the mayor; one active or retired fire fighter employed by or retired from the city to be elected by the fire fighters employed by or retired from the city who are subject to the jurisdiction of the board; one active or retired law enforcement officer employed by or retired from the city to be elected by the law enforcement officers employed by or retired from the city who are subject to the jurisdiction of the board; and one member from the public at large who resides within the city to be appointed by the other four members designated in this subsection. Only those active or retired fire fighters and law enforcement officers who are subject to the jurisdiction of the board have the right to elect under this section. All fire fighters and law enforcement officers employed by or retired from the city are eligible for election. Each of the elected members shall serve a two year term. The members appointed pursuant to this subsection shall serve for two year terms: PROVIDED, That cities of the first class only, shall retain existing firemen's pension boards established pursuant to RCW 41.16.020 and existing boards of trustees of the relief and pension fund of the police department as established pursuant to RCW 41.20.010 which such boards shall have authority to act upon and approve or disapprove claims for disability by fire fighters or law enforcement officers as provided under the Washington law enforcement officers' and fire fighters' retirement system act.

(b) Each county shall establish a disability board having jurisdiction over all members ((~~residing in the county~~)) employed by or retired from an employer within the county and not employed by a city in which a disability board is established. The county disability board so created shall be composed of five members to be chosen as follows: One member of the legislative body of the county to be appointed by the county legislative body; one member of a city or town legislative body located within the county which does not contain a city disability board established pursuant to subsection (1)(a) of this section to be chosen by a majority of the mayors of such cities and towns within the county which does not contain a city disability board; one active fire fighter or retired fire fighter employed by or retired from an employer within the county to be elected by the fire fighters employed or retired ((~~in~~)) from an employer within the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of ((~~the~~)) that board; one law enforcement officer or retired law enforcement officer employed by or retired from an employer within the county to be elected by the law enforcement officers employed in or retired from an employer within the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of ((~~the~~)) that board; and one member from the public at large who resides within the county but does not reside within a city in which a city disability board is established, to be appointed by the other four members designated in this subsection. However, in counties with a population less than sixty thousand, the member of the disability board appointed by a majority of the mayors of the cities and towns within the county that do not contain a city disability board must be a resident of one of the cities and towns but need not be a member of a city or town legislative body. Only those active or retired fire fighters and law enforcement officers who are subject to the jurisdiction of the board have the right to elect under this section. All fire fighters and law enforcement officers employed by or retired from <u>an employer within</u> the county <u>who are not employed by or retired from a city in which a disability board is established</u> are eligible for election. All members appointed or elected pursuant to this subsection shall serve for two year terms. <u>If there are no fire fighters under the jurisdiction of the board eligible to vote, a second eligible employee representative shall be elected by the law enforcement officers eligible to vote. If there are no law enforcement officers under the jurisdiction of the board eligible to vote, a second eligible representative shall be elected by the fire fighters eligible to vote.</u>

(2) The members of both the county and city disability boards shall not receive compensation for their service upon the boards but the members shall be reimbursed by their respective county or city for all expenses incidental to such service as to the amount authorized by law.

(3) The disability boards authorized for establishment by this section shall perform all functions, exercise all powers, and make all such determinations as specified in this chapter.

<u>NEW SECTION.</u> **Sec. 2.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**10/27/04**	**Z-0198.1/ Z-0199.1**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 1. The bill addresses jurisdiction, disability board membership and eligibility to vote for member representatives on the board. The proposed legislation provides that the jurisdiction of the county disability boards applies to all members employed by or retired from an employer within the county and not employed by a city in which a disability board is established. It also clarifies that to serve on the county disability board, a fire fighter or law enforcement officer must be employed by or retired from an employer within the county and not be employed by or retired from a city in which a disability board is established. Those voting for employee representatives on the county disability board must be employed by or retired from an employer within the county and not employed by or retired from a city in which a disability board is established. Finally, the bill addresses the election of the firefighter and law enforcement officer positions on the board and adds the following new provisions: a) if there are no firefighters eligible to vote, a second eligible member representative shall be elected by the law enforcement officers eligible to vote, and b) if there are no law enforcement officers eligible to vote, a second member representative shall be elected by the fire fighters eligible to vote.

Effective Date: Immediately upon passage.

CURRENT SITUATION:

Currently the county disability board's jurisdiction extends to "all members residing in the county" and not employed by a city in which a disability board is established. The provision that the members be employed by or retired from an employer within the county is not included in the current law. To serve on the disability board, the current law requires mere residence in the county for the firefighter and police officer representatives, whereas the proposed law requires that the employee representatives be "employed by or retired from an employer within the county", and that they not be "employed by or retired from a city in which a disability board is established."

The current law allows all fire fighters and law enforcement officers employed or retired from the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of the board to vote for member representation on the boards. The proposed law adds the requirement that the voting member be employed by or retired from an employer within the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of "that" board.

FISCAL IMPACT:

None.

Total Fiscal Impact of 2004 SCPP Proposals

(Cost in Millions)

	2005-7 GF-S Low	2005-7 GF-S High	2005-7 Local Low	2005-7 Local High	2005-7 Total ER Low	2005-7 Total ER High
Plan 3 Vesting						
PERS	$0.5	$0.5	$1.2	$1.2	$2.5	$2.5
TRS	$2.4	$2.4	$0.5	$0.5	$2.9	$2.9
SERS	$1.5	$1.5	$1.3	$1.3	$2.8	$2.8
Total	$4.4	$4.4	$3.0	$3.0	$8.2	$8.2
Opt In/Opt Out; Age 70 1/2						
PERS	$0.8	$0.8	$1.9	$1.9	$4.0	$4.0
TRS	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
SERS	$0.4	$0.4	$0.4	$0.4	$0.8	$0.8
Total	$1.2	$1.2	$2.3	$2.3	$4.8	$4.8
$1,000 Minimum Benefit						
Expanded Eligibility and/or Indexed						
PERS	$0.2	$0.3	$0.5	$0.7	$1.1	$1.5
TRS	$0.7	$1.1	$0.1	$0.2	$0.8	$1.3
SERS	$0.1	$0.2	$0.1	$0.1	$0.2	$0.3
Total	$1.0	$1.6	$0.7	$1.0	$2.1	$3.1
Deferred Rate Increases						
PERS	($55.9)	($55.9)	($131.5)	($131.5)	($279.7)	($279.7)
TRS	($29.4)	($29.4)	($6.0)	($6.0)	($35.4)	($35.4)
SERS	($23.5)	($23.5)	($20.8)	($20.8)	($44.3)	($44.3)
Total	($108.8)	($108.8)	($158.3)	($158.3)	($359.4)	($359.4)
Rule of 90						
All service or prospective only						
PERS	$8.6	$18.1	$20.2	$42.5	$43.0	$90.4
TRS	$40.5	$66.6	$8.3	$13.6	$48.8	$80.2
SERS	$3.7	$7.7	$3.2	$6.8	$6.9	$14.5
Total	$52.8	$92.4	$31.7	$62.9	$98.7	$185.1
TRS Out-of-State Service						
Maximum 5 to 10 years						
TRS	$6.2	$12.4	$1.3	$2.5	$7.5	$14.9
LEOFF 1 Benefit Cap*						
Increase or remove						
LEOFF 1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
State Patrol Rate Stability						
1/3, 2/3 or 20/80						
WSP	$0.1	$0.2	$0.0	$0.0	$2.4	$4.0
Total						
PERS	($45.8)	($36.2)	($107.7)	($85.2)	($229.1)	($181.3)
TRS	$20.4	$53.1	$4.2	$10.8	$24.6	$63.9
SERS	($17.8)	($13.7)	($15.8)	($12.2)	($33.6)	($25.9)
LEOFF 1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
WSP	$0.1	$0.2	$0.0	$0.0	$2.4	$4.0
All Systems	($43.1)	$3.4	($119.3)	($86.6)	($235.7)	($139.3)

No Fiscal Impact:

PERS/TRS/SERS Interruptive Military Service
TRS Part Time ESAs
TRS In-State Service Purchase
LEOFF 1 Survivor Benefits
LEOFF 1 Disability Boards
SCPP Executive Committee Membership

Indeterminate Fiscal Impact:**

PERS/TRS/SERS Post-Retirement Employment
LEOFF 1 Ex-spouse Survivor

Undefined Proposals:

PERS/TRS/SERS Gain Sharing Changes
PERS/TRS/SERS Retiree Health Insurance

* Costs shown for the LEOFF 1 benefit cap are based on the 2002 valuation.
** Proposals with an indeterminate fiscal impact may or may not have a cost, but the cost impact has not been determined.

Total Fiscal Impact of 2004 SCPP Proposals

(Cost in Millions)

	2007-9 GF-S Low	2007-9 GF-S High	2007-9 Local Low	2007-9 Local High	2007-9 Total ER Low	2007-9 Total ER High
Plan 3 Vesting						
PERS	$0.7	$0.7	$1.7	$1.7	$3.6	$3.6
TRS	$2.9	$2.9	$0.6	$0.6	$3.5	$3.5
SERS	$2.0	$2.0	$1.8	$1.8	$3.8	$3.8
Total	$5.6	$5.6	$4.1	$4.1	$10.9	$10.9
Opt In/Opt Out; Age 70 1/2						
PERS	$1.0	$1.0	$2.3	$2.3	$4.9	$4.9
TRS	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
SERS	$0.4	$0.4	$0.4	$0.4	$0.8	$0.8
Total	$1.4	$1.4	$2.7	$2.7	$5.7	$5.7
$1,000 Minimum Benefit						
Expanded Eligibility and/or Indexed						
PERS	$0.2	$0.4	$0.6	$0.8	$1.2	$1.8
TRS	$0.6	$0.8	$0.1	$0.2	$0.7	$1.0
SERS	$0.1	$0.2	$0.1	$0.2	$0.2	$0.4
Total	$0.9	$1.4	$0.8	$1.2	$2.1	$3.2
Deferred Rate Increases						
PERS	$68.6	$68.6	$161.3	$161.3	$343.1	$343.1
TRS	$27.6	$27.6	$5.7	$5.7	$33.3	$33.3
SERS	$24.3	$24.3	$21.5	$21.5	$45.8	$45.8
Total	$120.5	$120.5	$188.5	$188.5	$422.2	$422.2
Rule of 90						
All service or prospective only						
PERS	$10.5	$20.4	$24.6	$48.0	$52.3	$102.1
TRS	$45.2	$70.8	$9.3	$14.5	$54.5	$85.3
SERS	$4.4	$8.4	$3.9	$7.4	$8.3	$15.8
Total	$60.1	$99.6	$37.8	$69.9	$115.1	$203.2
TRS Out-of-State Service						
Maximum 5 to 10 years						
TRS	$6.9	$13.8	$1.4	$2.8	$8.3	$16.6
LEOFF 1 Benefit Cap*						
Increase or remove						
LEOFF 1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
State Patrol Rate Stability						
1/3, 2/3 or 20/80						
WSP	$0.3	$0.5	$0.0	$0.0	$4.8	$8.5
Total						
PERS	$81.0	$91.1	$190.5	$214.1	$405.1	$455.5
TRS	$83.2	$115.9	$17.1	$23.8	$100.3	$139.7
SERS	$31.2	$35.3	$27.7	$31.3	$58.9	$66.6
LEOFF 1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
WSP	$0.3	$0.5	$0.0	$0.0	$4.8	$8.5
All Systems	$195.7	$242.8	$235.3	$269.2	$569.1	$670.3

No Fiscal Impact:

PERS/TRS/SERS Interruptive Military Service
TRS Part Time ESAs
TRS In-State Service Purchase
LEOFF 1 Survivor Benefits
LEOFF 1 Disability Boards
SCPP Executive Committee Membership

Indeterminate Fiscal Impact:**

PERS/TRS/SERS Post-Retirement Employment
LEOFF 1 Ex-spouse Survivor

Undefined Proposals:

PERS/TRS/SERS Gain Sharing Changes
PERS/TRS/SERS Retiree Health Insurance

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Total Fiscal Impact of 2004 SCPP Proposals

(Cost in Millions)

	25 Year GF-S Low	25 Year GF-S High	25 Year Local Low	25 Year Local High	25 Year Total ER Low	25 Year Total ER High
Plan 3 Vesting						
PERS	$27.3	$27.3	$64.2	$64.2	$136.6	$136.6
TRS	$85.9	$85.9	$17.6	$17.6	$103.5	$103.5
SERS	$71.7	$71.7	$63.6	$63.6	$135.3	$135.3
Total	$184.9	$184.9	$145.4	$145.4	$375.4	$375.4
Opt In/Opt Out; Age 70 1/2						
PERS	$15.5	$15.5	$36.3	$36.3	$77.3	$77.3
TRS	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
SERS	$4.3	$4.3	$3.8	$3.8	$8.1	$8.1
Total	$19.8	$19.8	$40.1	$40.1	$85.4	$85.4
$1,000 Minimum Benefit						
Expanded Eligibility and/or Indexed						
PERS	$0.4	$5.2	$1.1	$12.1	$2.3	$25.8
TRS	$1.7	$10.7	$0.3	$2.2	$2.0	$12.9
SERS	$0.2	$2.6	$0.2	$2.3	$0.4	$4.9
Total	$2.3	$18.5	$1.6	$16.6	$4.7	$43.6
Deferred Rate Increases						
PERS	$12.7	$12.7	$29.8	$29.8	$63.4	$63.4
TRS	$9.8	$9.8	$2.0	$2.0	$11.8	$11.8
SERS	$5.6	$5.6	$5.0	$5.0	$10.6	$10.6
Total	$28.1	$28.1	$36.8	$36.8	$85.8	$85.8
Rule of 90						
All service or prospective only						
PERS	$241.4	$325.1	$567.3	$764.0	$1,207.0	$1,625.6
TRS	$1,003.2	$1,250.9	$205.4	$256.2	$1,208.6	$1,507.1
SERS	$100.4	$130.1	$89.0	$115.4	$189.4	$245.5
Total	$1,345.0	$1,706.1	$861.7	$1,135.6	$2,605.0	$3,378.2
TRS Out-of-State Service						
Maximum 5 to 10 years						
TRS	$153.1	$306.0	$31.3	$62.7	$184.4	$368.7
LEOFF 1 Benefit Cap*						
Increase or remove						
LEOFF 1	$53.7	$63.8	$1.6	$1.6	$55.3	$65.4
State Patrol Rate Stability						
1/3, 2/3 or 20/80						
WSP	$7.4	$8.0	$0.0	$0.0	$123.3	$133.4
Total						
PERS	$297.3	$385.8	$698.7	$906.4	$1,486.6	$1,928.7
TRS	$1,253.7	$1,663.3	$256.6	$340.7	$1,510.3	$2,004.0
SERS	$182.2	$214.3	$161.6	$190.1	$343.8	$404.4
LEOFF 1	$53.7	$63.8	$1.6	$1.6	$55.3	$65.4
WSP	$7.4	$8.0	$0.0	$0.0	$123.3	$133.4
All Systems	$1,794.3	$2,335.2	$1,118.5	$1,438.8	$3,519.3	$4,535.9

No Fiscal Impact:

PERS/TRS/SERS Interruptive Military Service
TRS Part Time ESAs
TRS In-State Service Purchase
LEOFF 1 Survivor Benefits
LEOFF 1 Disability Boards
SCPP Executive Committee Membership

Indeterminate Fiscal Impact:**

PERS/TRS/SERS Post-Retirement Employment
LEOFF 1 Ex-spouse Survivor

Undefined Proposals:

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PERS/TRS/SERS Retiree Health Insurance

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